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**HILDALE CITY, UTAH**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**



**KEMP BURDICK**  
KEMP BURDICK HINTON & HALL L.L.C.  
**CPA'S & ADVISORS**

## Table of Contents

### FINANCIAL SECTION

Independent Auditors' Report .....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	10
Statement of Activities .....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	15
Statement of Net Assets – Proprietary Funds .....	16
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds .....	17
Statement of Cash Flows – Proprietary Funds .....	18
Notes to the Financial Statements .....	19

### SUPPLEMENTARY SCHEDULES

Supplementary Information on Bond Requirements .....	44
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### OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

Report on Compliance with Laws and Regulations and Internal Controls.....	46
Report on State Legal Compliance .....	48
Findings and Recommendations .....	50

**FINANCIAL SECTION**



**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.L.C.

**CPA'S & ADVISORS**

## Independent Auditors' Report

The Honorable Mayor and  
City Council  
Hildale City, Utah

MEMBERS:  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hildale City, Utah, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Hildale City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Hildale City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005, on our consideration of Hildale City's internal control structure over financial reporting and on our tests of its compliance with laws and regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hildale City's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.

August 31, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Hildale City (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- Total net assets increased by \$676,597 which resulted in total assets in excess of total liabilities (net assets) of \$2,556,183 at the close of the fiscal year.
- Total governmental revenues exceeded total governmental expenses by \$28,214.
- Total business-type expenses exceeded total business-type revenues by \$648,383, which included affiliate revenue and expense of \$2.5 million and \$4.8 million respectively.
- Total revenues from all sources were \$6.7 million, which includes revenue from affiliates of \$2.5 million
- The total cost of all City programs was \$6.1 million, which includes expenses from affiliates of \$4.8 million.
- The General Fund reported excess expenditures over revenues of \$53,513.
- Actual resources received in the General Fund were less than the final budget by \$307,209 while actual expenditures were \$442,439 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$21,111 or 2% of total General Fund expenditures, excluding transfers.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

#### **Reporting the City as a Whole**

##### **The Statement of Net Assets and the Statement of Activities (Government-wide)**

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- **Government activities** – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works, parks and recreation, highways & streets, and interest on long-term debt. Property taxes, sales tax, intergovernmental revenues and charges for services finance most of these activities.
- **Proprietary activities/Business type activities** – The City charges a fee to customers to cover all of most of the cost of the services provided.

### **Reporting the City's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- **Proprietary funds** – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$2,556,183 as of June 30, 2005 as shown in the following condensed statement of net assets. The City has chosen to account for its sewer operations in enterprise funds which are shown as Business Activities.

### Hildale City Statement of Net Assets

	Governmental activities		Business-type activities	
	6/30/2005	6/30/2004	6/30/2005	6/30/2004
Current and other assets	\$ 188,936	\$ 200,548	\$ 408,048	\$ 413,236
Capital assets	823,958	805,027	5,527,084	5,714,508
Investment in Affiliate	-	-	19,596,134	18,874,537
Total assets	<u>1,012,894</u>	<u>1,005,575</u>	<u>25,531,266</u>	<u>25,002,281</u>
Long-term liabilities outstanding	155,751	218,547	23,657,656	23,773,315
Other liabilities	167,825	125,924	6,745	10,484
Total liabilities	<u>323,576</u>	<u>344,471</u>	<u>23,664,401</u>	<u>23,783,799</u>
Net assets:				
Invested in capital assets, net of related debt	668,207	586,480	1,684,428	1,756,193
Invested in affiliates	-	-	(218,866)	(940,463)
Restricted	-	-	159,535	124,547
Unrestricted	21,111	74,624	241,768	278,205
Total net assets	<u>\$ 689,318</u>	<u>\$ 661,104</u>	<u>\$ 1,866,865</u>	<u>\$ 1,218,482</u>

### Governmental Activities

The cost of all Governmental activities this year was \$835,947. As shown on the statement of Changes in Net Assets on the following page, \$331,901 of this cost was paid for by those who directly benefited from the programs, \$168,564 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services, but excluding general revenues were \$500,465. General revenues totaled \$363,696.

The City's programs include: General Government, Public Safety, Public Works, Parks & Recreation, and Highways and Streets. Each programs' revenues and expenses are presented below.



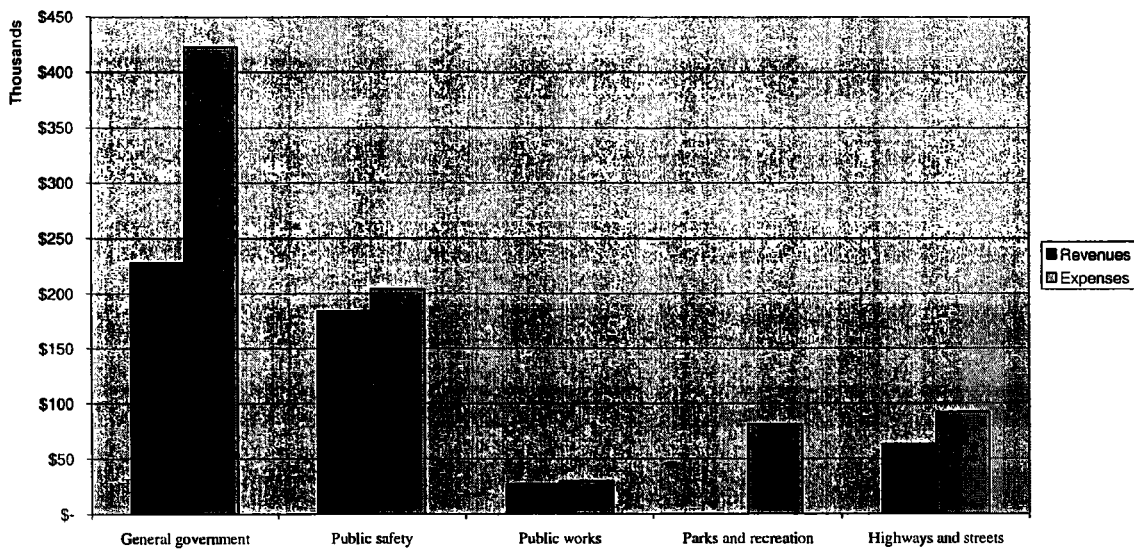
**Hildale City  
Changes in Net Assets**

	Governmental activities		Business-type activities	
	6/30/2005	6/30/2004	6/30/2005	6/30/2004
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 331,901	\$ 348,629	\$ 372,368	\$ 390,692
Operating grants and contributions	102,185	139,807	-	-
Capital grants and contributions	66,379	198,395	-	1,297
General revenues:				
Taxes	335,641	401,202	-	-
Impact fees	-	-	8,112	44,391
Town fees	23,965	24,365	-	-
Other revenue/(expense)	4,090	(26,853)	2,959,019	1,200
Affiliate revenue	-	-	2,573,184	6,595,039
Total revenues	<u>864,161</u>	<u>1,085,545</u>	<u>5,912,683</u>	<u>7,032,619</u>
<b>Expenses:</b>				
General government	422,550	343,823	-	-
Public safety	203,709	204,047	-	-
Public works	29,559	3,094	-	-
Parks and recreation	80,720	63,430	-	-
Highways and streets	91,892	138,673	-	-
Interest on long-term debt	7,517	11,301	114,769	114,915
Sewer	-	-	347,944	378,566
Affiliate expenses	-	-	4,801,587	6,957,066
Total expenses	<u>835,947</u>	<u>764,368</u>	<u>5,264,300</u>	<u>7,450,547</u>
Increase/(decrease) in net assets	28,214	321,177	648,383	(417,928)
Net assets, beginning	<u>661,104</u>	<u>339,927</u>	<u>1,218,482</u>	<u>1,636,410</u>
Net assets, ending	<u>\$ 689,318</u>	<u>\$ 661,104</u>	<u>\$ 1,866,865</u>	<u>\$ 1,218,482</u>

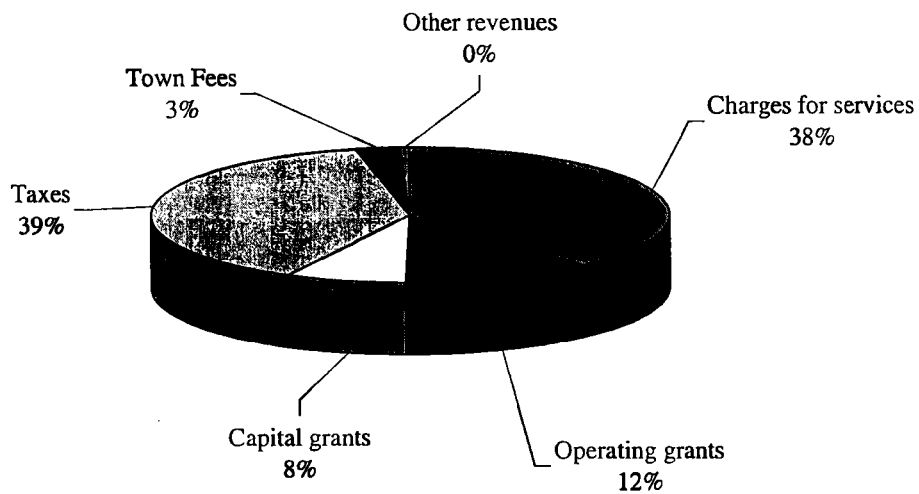
Total resources available during the year to finance governmental operations were \$1,525,265 consisting of Net assets at July 1, 2004 of \$661,104, program revenues of \$500,465 and General Revenues of \$363,696. Total Governmental Activities during the year were \$835,947; thus Governmental Net Assets were increased by \$28,214 to \$689,318.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities (in Thousands)



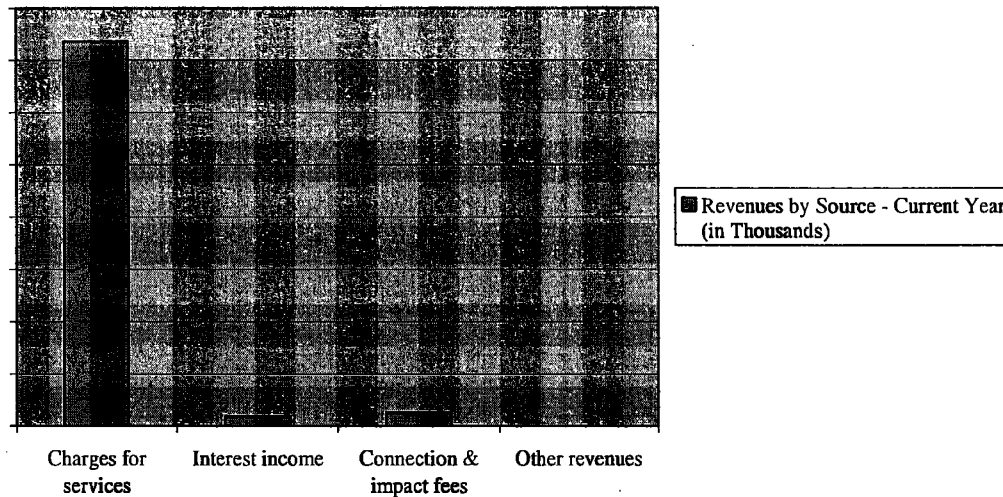
Revenue By Source - Governmental Activities



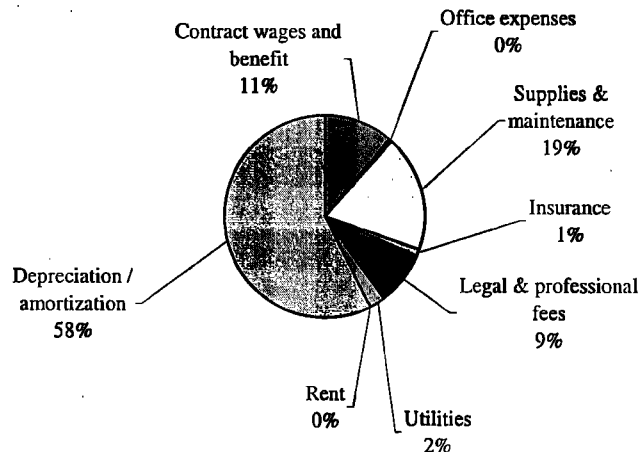
## Business Type Activities

Net assets of the Business Type activities at June 30, 2005, as reflected in the Statement of Net Assets were \$1.8 million. The cost of providing all Proprietary (Business Type) activities this year was \$5.2 which includes \$4.8 million of affiliate expenses. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$372,368. Interest earnings were \$9,019, impact fees were \$8,112 and revenues from affiliates were \$2.5 million. In addition, Twin City Power, an affiliate, sold a gas contract which generated non-operating revenues of 2.9 million. Net Assets increased by \$648,383.

Revenues by Source, excluding affiliates - Current Year (in Thousands)



Operating Expenses, excluding affiliates- Current Year



## **General Fund Budgetary Highlights**

The final appropriations for the General Fund at year-end were \$442,439 greater than actual expenditures. The budget to actual variance in appropriations was principally due to estimates of anticipated expenditures for housing projects and general government which carried over to the next fiscal year. Actual revenues were less than the final budget by \$307,209. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2005, net capital assets of the government activities totaled \$823,958 and the net capital assets of the business-type activities totaled \$5.5 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See notes to the financial statements.)

### **Debt**

At year-end, the City had \$155,751 in governmental type debt, and \$3.84 million in proprietary debt, and \$19.8 million in Affiliate (Twin City Power, Water Departments and Gas Departments) debt. The debt is a liability of the government and amounts to approximately \$10,246 per capita. During the current fiscal year, the City's total debt decreased by \$178,455. (See notes to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the City Budget for fiscal year 2005/2006, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2004/2005.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeremiah Barlow, Treasurer, Hildale City, P.O. Box 840490, Hildale, UT, 84780

**BASIC FINANCIAL STATEMENTS**

# HILDALE CITY, UTAH

## Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 230,037	\$ 230,037
Receivables (net of allowance)	175,385	71,489	246,874
Prepays	13,551	-	13,551
Temporarily restricted assets:			
Cash and cash equivalents	-	106,522	106,522
Investment in affiliates	-	19,596,134	19,596,134
Capital assets (net of accumulated depreciation):			
Land	83,421	364,661	448,082
Buildings	164,575	147,163	311,738
Improvements other than buildings	35,088	4,983,103	5,018,191
Machinery and equipment	117,325	15,659	132,984
Office furniture and equipment	19,421	16,052	35,473
Automobiles and trucks	354,301	446	354,747
Infrastructure	49,827	-	49,827
Total assets	<u>1,012,894</u>	<u>25,531,266</u>	<u>26,544,160</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	135,432	13,853	149,285
Internal balances	7,108	(7,108)	-
Deferred revenue	25,285	-	25,285
Noncurrent liabilities:			
Due within one year	58,635	1,272,419	1,331,054
Due in more than one year	97,116	22,385,237	22,482,353
Total liabilities	<u>323,576</u>	<u>23,664,401</u>	<u>23,987,977</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	668,207	1,684,428	2,352,635
Invested in affiliates	-	(218,866)	(218,866)
Restricted for:			
Repair & replacement	-	53,900	53,900
Debt service	-	105,635	105,635
Unrestricted	21,111	241,768	262,879
Total Net Assets	<u>\$ 689,318</u>	<u>\$ 1,866,865</u>	<u>\$ 2,556,183</u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
General government	\$ 422,550	\$ 227,536	\$ -	\$ -	\$ (195,014)	\$ -
Public safety	203,709	77,763	39,350	66,379	(20,217)	-
Public works	29,559	26,602	-	-	(2,957)	-
Parks and recreation	80,720	-	-	-	(80,720)	-
Highways and streets	91,892	-	62,835	-	(29,057)	-
Interest on long-term debt	7,517	-	-	-	(7,517)	-
Total governmental activities	835,947	331,901	102,185	66,379	(335,482)	-
Business-type activities:						
Sewer	462,713	372,368	-	-	-	(90,345)
Investment in affiliate	4,801,587	2,573,184	-	-	-	(2,228,403)
Total business-type activities	5,264,300	2,945,552	-	-	-	(2,318,748)
General Revenues:						
Taxes:						
Property taxes levied for general purposes					72,453	-
Sales and use taxes					195,651	-
Franchise taxes					67,537	-
Impact fees					-	8,112
Town fee					23,965	-
Unrestricted investment earnings					4,090	9,019
Gain on the disposal of assets (Twin City Power - Affiliate)					-	2,950,000
Total general revenues & transfers					363,696	2,967,131
Change in net assets					28,214	648,383
Net assets - beginning					661,104	1,218,482
Net assets - ending					\$ 689,318	\$ 1,866,865
					\$	\$ 2,556,183

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>		
Cash	\$ -	\$ -
Receivables (net of allowance for uncollectibles)		
Services	95,353	95,353
Leases	5,040	5,040
Due from other governments	74,992	74,992
Prepaid expense	13,551	13,551
<b>Total assets</b>	<u>\$ 188,936</u>	<u>\$ 188,936</u>
<b>Liabilities and fund balances</b>		
Liabilities:		
Accounts payable	\$ 135,432	\$ 135,432
Due to other funds	7,108	7,108
Deferred revenue	25,285	25,285
Total liabilities	<u>167,825</u>	<u>167,825</u>
Fund balances:		
Unreserved:		
Designated for subsequent year	-	-
Unreserved	21,111	21,111
Total fund balances	<u>21,111</u>	<u>21,111</u>
<b>Total liabilities and fund balances</b>	<u>\$ 188,936</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	823,958
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	<u>(155,751)</u>
Net assets of governmental activities	<u>\$ 689,318</u>

The accompanying notes are an integral part of the financial statements.



**HILDALE CITY, UTAH**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	General Fund June 30, 2005	(Memorandum Only) General Fund June 30, 2004
<b>Revenues</b>		
Property taxes	\$ 72,454	\$ 155,757
Sales and use taxes	195,651	183,442
Franchise taxes	67,537	62,003
Licenses and permits	2,495	2,630
Intergovernmental revenue	168,564	320,226
Ambulance revenues	62,573	71,375
City service fees	23,965	24,365
Accounting service fees	194,595	184,082
Engineering service revenues	26,602	33,624
Rent and Industrial park leases	18,075	18,883
Other revenues/contributions	27,560	38,035
Interest income	4,090	2,873
Total revenues	<u>864,161</u>	<u>1,097,295</u>
<b>Expenditures</b>		
Current:		
General government	182,092	218,999
Accounting service	241,555	209,722
Public safety	276,166	536,126
Public works	23,089	41,674
Highways and streets	118,799	138,673
Parks and recreation	115,830	77,671
Total expenditures	<u>957,531</u>	<u>1,222,865</u>
Excess of revenues Over/(Under) expenditures	<u>(93,370)</u>	<u>(125,570)</u>
<b>Other financing sources (uses):</b>		
Lease proceeds	39,857	179,288
Total financing sources (uses)	<u>39,857</u>	<u>179,288</u>
Net change in fund balance	(53,513)	53,718
Fund balance, beginning of year	74,624	20,906
Fund balance, end of year	<u>\$ 21,111</u>	<u>\$ 74,624</u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2005**

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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (53,513)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	18,931
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	62,796
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Change in net assets of governmental activities	<u>\$ 28,214</u>
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The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended June 30, 2005**

Revenues	Budgeted Amounts		Actual Amounts	Variance With Final Budget- Positive (Negative)
	Original	Final		
Property taxes	\$ 180,500	\$ 181,500	\$ 72,454	\$ (109,046)
Sales and use taxes	200,750	200,750	195,651	(5,099)
Franchise taxes	73,400	73,400	67,537	(5,863)
Licenses and permits	3,500	3,500	2,495	(1,005)
Intergovernmental revenue	253,170	274,570	168,564	(106,006)
Ambulance revenues	62,200	62,200	62,573	373
City service fees	25,000	25,000	23,965	(1,035)
Accounting service fees	224,400	240,000	194,595	(45,405)
Engineering service revenues	57,590	45,540	26,602	(18,938)
Rent and Industrial park leases	28,560	28,560	18,075	(10,485)
Other revenues/contributions	29,500	33,350	27,560	(5,790)
Interest income	3,000	3,000	4,090	1,090
Total revenues	1,141,570	1,171,370	864,161	(307,209)
<b>Expenditures</b>				
Current:				
General government	302,640	335,630	182,092	153,538
Housing projects	68,000	68,000	-	68,000
Accounting service	224,400	258,800	241,555	17,245
Public safety	293,480	293,680	276,166	17,514
Public works	57,600	57,600	23,089	34,511
Highways and streets	201,890	209,750	118,799	90,951
Parks and recreation	153,560	176,510	115,830	60,680
Total expenditures	1,301,570	1,399,970	957,531	442,439
Excess of Revenues Over/(Under) Expenditures	(160,000)	(228,600)	(93,370)	135,230
<b>Other financing sources (uses)</b>				
Lease proceeds	165,000	165,000	39,857	(125,143)
Total other financing sources and uses	165,000	165,000	39,857	(125,143)
Net change in fund balances	5,000	(63,600)	(53,513)	10,087
Fund balance, beginning of year	74,624	74,624	74,624	-
Fund balance, end of year	\$ 79,624	\$ 11,024	\$ 21,111	\$ 10,087

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2005**

	Sewer	Affiliates	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 230,037	\$ -	\$ 230,037
Receivables, net of allowance	71,489	-	71,489
Due from other funds	7,108	-	7,108
Total current assets	<u>308,634</u>	<u>-</u>	<u>308,634</u>
Noncurrent assets:			
Restricted cash and cash equivalents	106,522	-	106,522
Investment in affiliates	-	19,596,134	19,596,134
Capital assets:			
Land	364,661	-	364,661
Buildings	1,044,081	-	1,044,081
Improvements other than buildings	6,345,679	-	6,345,679
Automobiles and trucks	75,745	-	75,745
Machinery and equipment	36,824	-	36,824
Office furniture and equipment	669	-	669
Less: Accumulated depreciation	<u>(2,340,575)</u>	<u>-</u>	<u>(2,340,575)</u>
Total noncurrent assets	<u>5,633,606</u>	<u>19,596,134</u>	<u>25,229,740</u>
Total assets	<u>5,942,240</u>	<u>19,596,134</u>	<u>25,538,374</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	13,853	-	13,853
Current portion of noncurrent liabilities	117,419	1,155,000	1,272,419
Total current liabilities	<u>131,272</u>	<u>1,155,000</u>	<u>1,286,272</u>
Noncurrent liabilities:			
Bonds payable, net of current portion	3,725,237	18,660,000	22,385,237
Total noncurrent liabilities	<u>3,725,237</u>	<u>18,660,000</u>	<u>22,385,237</u>
Total liabilities	<u>3,856,509</u>	<u>19,815,000</u>	<u>23,671,509</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,684,428	-	1,684,428
Invested in affiliates		(218,866)	(218,866)
Restricted for repair & replacement	53,900	-	53,900
Restricted for debt service	105,635	-	105,635
Unrestricted	241,768	-	241,768
Total net assets	<u>\$ 2,085,731</u>	<u>\$ (218,866)</u>	<u>\$ 1,866,865</u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

	<u>Sewer Fund</u>	<u>Affiliates</u>	<u>Total</u>
<b>Operating revenues</b>			
Charges for services	\$ 367,725	\$ -	\$ 367,725
Total Operating Revenues	<u>367,725</u>	<u>-</u>	<u>367,725</u>
<b>Operating expenses</b>			
Salaries	34,479	-	34,479
Benefits	4,422	-	4,422
Professional & technical services	30,199	-	30,199
Supplies and maintenance	64,628	-	64,628
Office expenses	1,613	-	1,613
Insurance	4,254	-	4,254
Utilities	8,417	-	8,417
Depreciation	199,932	-	199,932
Total operating expenses	<u>347,944</u>	<u>-</u>	<u>347,944</u>
Operating income (loss)	<u>19,781</u>	<u>-</u>	<u>19,781</u>
<b>Non-operating revenues/(expenses)</b>			
Connection fees	4,643	-	4,643
Contributed capital	-	-	-
Interest income	9,019	-	9,019
Wastewater impact fees	8,112	-	8,112
Interest expense and fiscal charges	(114,769)	-	(114,769)
Net income / (loss) from affiliate	-	721,597	721,597
Total non-operating income/(loss)	<u>(92,995)</u>	<u>721,597</u>	<u>628,602</u>
Change in net assets	(73,214)	721,597	648,383
Total net assets, beginning of year	<u>2,158,945</u>	<u>(940,463)</u>	<u>1,218,482</u>
Total net assets, end of year	<u>\$ 2,085,731</u>	<u>\$ (218,866)</u>	<u>\$ 1,866,865</u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

	Sewer Fund June 30, 2005	(Memorandum Only) Sewer Fund June 30, 2004
<b>Cash flows from operating activities</b>		
Cash received from customers, service fees	\$ 410,175	\$ 336,568
Cash received from customers, other	-	5,352
Cash paid to suppliers	(105,742)	(102,939)
Cash paid to employees	(38,901)	(52,811)
Cash paid to other funds	(7,108)	-
Cash flows from operating activities	<u>258,424</u>	<u>186,170</u>
<b>Cash flows from non-capital financing activities</b>		
Connection fees	4,643	21,890
Wastewater impact fees	8,112	44,391
Cash flows from non-capital financing activities	<u>12,755</u>	<u>66,281</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(12,507)	(50,183)
Principal paid on long-term debt	(115,661)	(115,514)
Contributed Capital	-	1,297
Interest paid	(114,769)	(114,915)
Cash flows from capital and related financing activities	<u>(242,937)</u>	<u>(279,315)</u>
<b>Cash flows from investing activities</b>		
Interest on investments	9,019	5,035
<b>Net change in cash and cash equivalents</b>	37,261	(21,829)
<b>Cash and cash equivalents, beginning of year</b>	299,298	321,127
<b>Cash and cash equivalents, end of year</b>	<u>\$ 336,559</u>	<u>\$ 299,298</u>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>		
Net operating income	\$ 19,781	\$ (9,764)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	199,932	220,634
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	42,450	(26,882)
(Increase)/Decrease in due from other funds	(7,108)	-
Increase/(Decrease) in accounts payable	3,369	2,182
Net cash flows from operating activities	<u>\$ 258,424</u>	<u>\$ 186,170</u>

The accompanying notes are an integral part of the financial statements.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies**

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Hildale City, (the City) is a municipal corporation and political subdivision of the State of Utah, organized and existing as a third class city pursuant to Title 10, Utah Code Annotated 1953, as amended. The City is governed by a mayor and five council members elected for staggered four-year terms. The mayor presides over all meetings but casts not vote in the council except in case of a tie. Some department heads are full-time employees of the City and responsible for day-to-day operations within the policy framework of the governing body. They report to the Mayor and City Council.

**Reporting Entity**

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in Generally Accepted Accounting Principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon the application of these criteria, there are no separate component units combined to form the reporting entity. However, the City has an equity interest in Twin City Power Joint Management, Operations and Maintenance Agreement (Twin City Power) Twin City Water Joint Management, Operations and Maintenance Agreement (The Water Departments) and a Natural Gas Department. (See Note 9).

The accompanying financial statements include all activities of the City.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.



**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Sewer Fund is used to account for the provision of sewer services to the residents of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services.

Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Memorandum Totals**

The columns on the combined Statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to consolidation. Interfund eliminations have not been made in the aggregation of this data.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Deposits and Investments**

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts, or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds." All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectibles. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

**Inventories and prepaid items**

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities are valued at the lower of FIFO cost or market. Market is considered as replacement cost.

Inventories in all fund types are immaterial and are not recorded.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20-40 years
Automobiles and trucks	5-7 years
Machinery and equipment	7 years
Infrastructure	20 years

**Compensated Absences**

The City does not currently have a policy for vacation and sick leave benefits; thus, there are no such accruals or expenses.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Wages and Salaries**

Some of the City's employees are employed by Colorado City. The City reimburses Colorado City for wages, payroll taxes and benefits for these contracted employees.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

**Risk Management**

The City maintains insurance for general liability, auto liability, employee dishonesty and worker's compensation through the Utah Local Government's Insurance Trust, American States Insurance and the Worker's Compensation Fund of Utah, respectively.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements**

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**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$218,547 difference are as follows:

Bonds/leases payable	\$ (155,751)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (155,751)</u>

**Capital related items:**

When capital assets (property, plant & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 1,432,721
Accumulated depreciation	<u>(608,763)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 823,958</u>

**Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:**

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	\$ 153,089
Depreciation expense	<u>(134,158)</u>
Net adjustment to increase net changes in fund balance total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 18,931</u>

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements, Continued**

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**Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities, continued:**

Another element of that reconciliation states that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this difference are as follows:

Lease proceeds	(39,857)
Principal paid on debt	<u>102,653</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 62,796</u>

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**NOTE 3. Stewardship, Compliance, and Accountability**

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**Budgets and Budgetary Accounting**

Annual budgets are prepared and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The General Fund budget is prepared using the modified accrual basis of accounting. Budgets for the proprietary fund types are prepared using the accrual basis of accounting, except that depreciation for all proprietary fund types was not budgeted. During the current fiscal year there were various amendments to the budget. Procedures for amending the budget were done in accordance with state law.

**Taxes**

Property taxes are collected by the Washington County Treasurer and remitted to the City in multiple installments. Taxes are levied and are due and payable on November 1 and delinquent after November 30 of each year at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes has not been made, as the amounts are not material in relationship to the financial statements taken as a whole.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly.

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 4. Deposits and Investments**

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

Hildale City follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Hildale City funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The City's Central Treasury consist of the following at fiscal year end:

Far West Bank	\$ 182,387
State Treasurer's Investment Pool	697,941
U.S. Bank	1,088,288
Wells Fargo Bank	927,308
Zions First National Bank	213,221
Less amounts transferred to Hildale and Colorado City Joint Utilities	<u>(2,829,034)</u>
	<u><u>\$ 280,111</u></u>

Cash in bank and equity in the City's Central Treasury by fund and by financial institution at fiscal year end is as follow:

	General Fund	Sewer Fund	Total
Equity in Central Treasury	\$ (512)	\$ 280,623	\$ 280,111
Cash in bank:			
Far West Bank	312	-	312
State Treasurer's Investment Pool	-	55,936	55,936
Cash on hand	200	-	200
Total Cash and Investments	<u><u>\$ -</u></u>	<u><u>\$ 336,559</u></u>	<u><u>\$ 336,559</u></u>

**HILDALE CITY, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 4.      Deposits and Investments, Continued**

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**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2005, \$2,197,056 of the Hildale City's central treasury's bank balance of \$2,597,057 was exposed to custodial credit risk because it was uninsured and collateralized.

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investment for Hildale City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize Hildale City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 4. Deposits and Investments, Continued**

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 697,941	\$ 697,941	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 697,941</u>	<u>\$ 697,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Hildale City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Hildale City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2005 Hildale City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 697,941	\$ -	\$ -	\$ -	\$ 697,941
Total Fair Value	<u>\$ 697,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697,941</u>



**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 5. Capital Assets**

The following table summarizes the changes to capital assets for governmental activities during the year.

<b>Governmental Activities:</b>	<b>Balance 6/30/2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2005</b>
Capital assets, not being depreciated:				
Land	\$ 83,421	\$ -	\$ -	\$ 83,421
Total capital assets, not being depreciated	<u>83,421</u>	<u>-</u>	<u>-</u>	<u>83,421</u>
Capital assets, being depreciated:				
Buildings	260,621	-	-	260,621
Improvements Other than Buildings	24,006	5,629	-	29,635
Machinery and Equipment	159,729	80,366	-	240,095
Office Furniture and Equipment	69,243	4,396	-	73,639
Automobiles and Trucks	639,706	53,041	-	692,747
Infrastructure	42,906	9,658	-	52,564
Total capital assets, being depreciated	<u>1,196,211</u>	<u>153,090</u>	<u>-</u>	<u>1,349,301</u>
Less accumulated depreciation for:				
Buildings	(89,531)	(6,515)	-	(96,046)
Improvements Other than Buildings	(1,719)	(2,828)	-	(4,547)
Machinery and Equipment	(93,569)	(19,202)	-	(112,771)
Office Furniture and Equipment	(45,943)	(8,275)	-	(54,218)
Automobiles and Trucks	(243,843)	(94,603)	-	(338,446)
Infrastructure	-	(2,736)	-	(2,736)
Total accumulated depreciation	<u>(474,605)</u>	<u>(134,159)</u>	<u>-</u>	<u>(608,764)</u>
Total capital assets, being depreciated, net	<u>721,606</u>	<u>18,931</u>	<u>-</u>	<u>740,537</u>
Governmental activities capital assets, net	<u>\$ 805,027</u>	<u>\$ 18,931</u>	<u>\$ -</u>	<u>\$ 823,958</u>

Depreciation expense was charged to the functions/programs of the City as follows:

<b>Governmental Activities:</b>	
General government	\$ 36,226
Public safety	87,511
Public works/streets	7,140
Parks & recreation	3,282
Total depreciation expense - governmental activities	<u>\$ 134,159</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 5. Capital Assets, Continued**

The following table summarizes the changes to capital assets for business-type activities during the year.

<b>Business Type Activities:</b>	<b>Balance 6/30/2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2005</b>
Capital assets not being depreciated:				
Land	\$ 364,661	\$ -	\$ -	\$ 364,661
Total capital assets, not being depreciated	<u>364,661</u>	<u>-</u>	<u>-</u>	<u>364,661</u>
Capital assets being depreciated:				
Buildings	1,044,081	-	-	1,044,081
Improvements other than buildings	6,333,171	12,508	-	6,345,679
Machinery and equipment	36,824	-	-	36,824
Office furniture and equipment	669	-	-	669
Automobiles and trucks	75,745	-	-	75,745
Total capital assets, being depreciated	<u>7,490,490</u>	<u>12,508</u>	<u>-</u>	<u>7,502,998</u>
Less accumulated depreciation for:				
Buildings	(624,083)	(26,144)	-	(650,227)
Improvements other than buildings	(1,449,099)	(160,168)	-	(1,609,267)
Machinery and equipment	(15,124)	(5,648)	-	(20,772)
Office furniture and equipment	-	(223)	-	(223)
Automobiles and trucks	<u>(52,337)</u>	<u>(7,749)</u>	<u>-</u>	<u>(60,086)</u>
Total accumulated depreciation	<u>(2,140,643)</u>	<u>(199,932)</u>	<u>-</u>	<u>(2,340,575)</u>
Total capital assets, being depreciated, net	<u>5,349,847</u>	<u>(187,424)</u>	<u>-</u>	<u>5,162,423</u>
Business-type activities capital assets, net	<u>\$ 5,714,508</u>	<u>\$ (187,424)</u>	<u>\$ -</u>	<u>\$ 5,527,084</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 6. Long-Term Debt**

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The following is a summary of changes in long-term debt for the year ended June 30, 2005:

	Balance 6/30/2004	Additions	Retirements	Balance 6/30/2005	Current Portion
Sewer Revenue Bonds, Series 1979	\$ 303,028	\$ -	\$ 14,328	\$ 288,700	\$ 15,061
Sewer Revenue Bonds, Series 2000A	1,427,000	-	79,000	1,348,000	79,000
Sewer Revenue Bonds, Series 2000B	1,873,808	-	18,780	1,855,028	19,643
Sewer Revenue Bonds, Series 2000C	354,479	-	3,551	350,928	3,715
Electric Revenue Bonds, Series 1995	18,505,000	-	-	18,505,000	1,085,000
Electric Revenue Bonds, Series 1997	1,310,000	-	-	1,310,000	70,000
Total Bonds	<u>23,773,315</u>	<u>-</u>	<u>115,659</u>	<u>23,657,656</u>	<u>1,272,419</u>
Capital leases payable	<u>218,547</u>	<u>19,837</u>	<u>82,633</u>	<u>155,751</u>	<u>58,635</u>
Total Long-Term Debt	<u>\$23,991,862</u>	<u>\$ 19,837</u>	<u>\$ 198,292</u>	<u>\$23,813,407</u>	<u>\$1,331,054</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 6. Long-Term Debt, Continued**

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**Revenue Bonds and Other:**

Sewer Revenue Bonds, Series 1979, due in monthly principal and interest installments of \$2,435, bearing interest at 5.00%, maturing March 15, 2019, secured by the sewer building and distribution lines.	288,700
Parity Sewer Revenue Bond, Series 2000A, due in annual principal installments ranging from \$79,000 - \$80,000, non-interest bearing, maturing April 1, 2022.	1,348,000
Parity Sewer Revenue Bond, Series 2000B, due in annual principal installments ranging from \$18,000 - \$99,000, bearing interest at 4.5%, maturing November 25, 2042.	1,855,028
Parity Sewer Revenue Bond, Series 2000C, due in annual principal installments ranging from \$3,400 - \$18,800, bearing interest at 4.5%, maturing November 25, 2042.	350,928
Electric Revenue Bonds, Series 1995, due in annual principal installments ranging from \$210,000 to \$1,805,000 bearing interest semi-annually at 7.00 - 8.00% maturing beginning September 1, 2003 and ending September 1, 2025.	18,505,000 *
Electric Revenue Bonds, Series 1997, due in annual principal installments ranging from \$15,000 to \$190,000 bearing interest semiannually at 7.75%, maturing September 1, 2025.	<u>1,310,000 *</u>
Total Bonds Payable and Other Obligations	23,657,656
Less Current Portion	<u>(1,272,419)</u>
Total Long-Term Debt, Net of Current Portion	<u><u>\$ 22,385,237</u></u>

\* These bonds are on the books of Twin City Power, See Note regarding Investment in Affiliates.

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 6. Long-Term Debt, Continued**

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Debt service requirements to maturity are as follows:

Year Ended June 30,	Sewer Revenue Bonds		Electric Revenue Bonds*	
	Principal	Interest	Principal	Interest
2006	\$ 117,419	\$ 113,009	\$ 1,155,000	\$ 1,476,606
2007	119,261	111,167	445,000	1,443,691
2008	121,194	109,234	430,000	1,409,596
2009	123,219	107,209	470,000	1,373,677
2010	125,342	105,086	515,000	1,335,158
2011-2015	662,306	489,833	3,270,000	5,977,528
2016-2020	696,847	420,248	4,805,000	4,417,366
2021-2025	406,455	364,585	6,750,000	2,140,015
2026-2030	319,017	292,023	1,975,000	77,658
2031-2035	393,506	217,534	-	-
2036-2040	492,589	118,451	-	-
2041-2043	265,501	14,567	-	-
Totals	<u>\$ 3,842,656</u>	<u>\$ 2,462,946</u>	<u>\$ 19,815,000</u>	<u>\$ 19,651,295</u>

\* See Note regarding Investment in Affiliates

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 7. Capital Leases Payable**

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**General Fund:**

The City has entered into nine lease agreements, which are considered capital leases in accordance with Financial Accounting Standard Board statement number 13. These leases are shown in the governmental activities of the government-wide statements.

The following is an annual schedule of future minimum lease payments with interest rates ranging from 7.4 percent to 2.65 percent under capital leases, together with the present value of the net minimum lease payments:

<u>Year Ending June 30,</u>	<u>Total</u>
2006	\$ 65,463
2007	56,558
2008	35,463
2009	4,271
2010	4,272
2011	339
Total remaining lease payments	<u>166,366</u>
Less amount representing interest	<u>(10,615)</u>
Present value of net remaining minimum lease payments	<u><u>\$ 155,751</u></u>

The summary of assets acquired through capital leases follows:

	<u>Cost</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>
Vehicles and equipment	\$520,483	\$ 64,271	\$ 305,715

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 8.      Deferred Revenue**

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Deferred Revenues shown in the General Fund in the amount of \$25,285 represent \$2,891 in Industrial Park leases receivable not collected within sixty days after year end and \$22,394 in Sewer Service accounts receivable not collected within sixty days after year end. The sewer accounts receivable were previously recorded in the proprietary fund. The account was transferred to the general fund during the 1998 fiscal year per City ordinance. (See footnote 1, Governmental Fund Types.)

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**NOTE 9.      Investment in Affiliates**

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The City has the following investments which are accounted for using the equity method:

**Twin City Power**

The Twin City Power Joint Management, Operations and Maintenance Agreement (Twin City Power) was formed on April 29, 1994 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Electric Distribution Systems Management Operation and Maintenance Agreement."

Each City has acquired its own electric system which is independently owned and financed and reflected in the funds of Twin City Power. Each City's ownership percentage in Twin City Power is based upon their original investments in their City's system and subsequent specific contributions. Common operating revenues and expenditures are allocated on the basis of the proportion that the annual energy sales to each City's electric customers bears to the total annual energy sales.

The "Power Board" consists of seven Members, three appointed by the Mayor and Council of Hildale City and four Members appointed by the Mayor and Council of Colorado City. Each Member is entitled to one vote; however, budgeting and financing is done by each City's Council and merely ratified by the "Power Board."

Twin City Power's audited financial statements as of June 30, 2005 can be obtained at the following address:

Hildale City  
320 E. Newel Avenue  
Hildale, Utah 84784

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 9. Investment in Affiliates, Continued**

**Twin City Power, (Continued)**

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with Twin City Power and their allocation between the Cities for the year ended June 30, 2005:

	Distribution		Generation	
	Hildale City	Colorado City	Hildale City	Total
Total Assets	\$ 1,061,572	\$ 807,537	\$ 20,125,942	\$ 21,995,051
Current Liabilities	\$ 72,049	\$ 132,646	\$ 3,127,960	\$ 3,332,655
Long-Term Liabilities	15,214	18,742	18,660,000	18,693,956
Total Liabilities	87,263	151,388	21,787,960	22,026,611
Net Assets/(Deficit)	974,309	656,149	(1,662,018)	(31,560)
Total Net Assets/(Deficit)	974,309	656,149	(1,662,018)	(31,560)
Total Liabilities and Net Assets	\$ 1,061,572	\$ 807,537	\$ 20,125,942	\$ 21,995,051
Total Operating Revenues	\$ 1,274,415	\$ 1,918,730	\$ 2,287,034	\$ 5,480,179
Total Operating Expenses	239,571	368,838	4,176,772	4,785,181
Operating Income/(Loss)	1,034,844	1,549,892	(1,889,738)	694,998
Non-Operating Revenues/(Expenses)	75,062	63,683	1,397,438	1,536,183
Change in Net Assets	\$ 1,109,906	\$ 1,613,575	\$ (492,300)	\$ 2,231,181

**Twin City Power Sale of Gas Contract**

On December 28, 1995, Twin City Power entered into an agreement with Conoco, Inc. (subsequently purchased by CIG Merchant Company, Inc.) to purchase natural gas at a fixed rate. This contract, having significant value in the 2005 winter gas market, was sold to El Paso Corporation effective April 1, 2005 for \$2,950,000. The gain resulting from the sale of the contract is reported in the non-operating portion of the Statement of Revenues, Expenses and Changes in Net Assets.

Upon sale of the contract, the proceeds were transferred to an escrow account being held for future restructuring purposes by the Management of Twin City Power. In addition to the proceeds from the sale, a portion of the natural gas sales made by Twin City Power to CIMA Energy, LTD. were also transferred to the escrow account. The Series 1995 and 1997 Bondholders have consented to this process and the two parties are currently in deliberations concerning the future of the Hildale City Power Generation Fund.



**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 9.      Investment in Affiliates, Continued**

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**Water Departments of Hildale/Colorado City**

The Twin City Water Joint Management, Operations and Maintenance Agreement (the Water Departments) was formed on February 22, 1996 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Inter-Governmental Agreement."

Each City has acquired its own water system which is independently owned and financed and reflected in the funds of the Water Departments. Each City's ownership percentage in the Water Departments was calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's boundary. Common operating revenues and expenditures are also allocated based on said percentages.

The Board of Trustees consists of seven trustees, three appointed by the Mayor and Council of Hildale City, three appointed by the Mayor and Council of Colorado City, and one appointed by a joint designation of both cities. Each trustee is entitled to one vote.

The Water Departments' audited financial statements as of June 30, 2005, can be obtained at the following address:

Hildale City  
320 E. Newel Avenue  
Hildale, Utah 84784

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 9. Investment in Affiliates, Continued**

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**Water Departments, (Continued)**

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with the Water Departments and their allocation between the Cities for the year ended June 30, 2005:

	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Total Assets	<u>\$ 300,161</u>	<u>\$ 909,001</u>	<u>\$ 1,209,162</u>
Current Liabilities	\$ 22,254	\$ 44,518	\$ 66,772
Long-Term Liabilities	56,220	104,407	160,627
Total Liabilities	<u>78,474</u>	<u>148,925</u>	<u>227,399</u>
Net Assets	<u>221,147</u>	<u>759,971</u>	<u>981,118</u>
Total Net Assets	<u>221,147</u>	<u>759,971</u>	<u>981,118</u>
Total Liabilities and Net Assets	<u>\$ 299,621</u>	<u>\$ 908,896</u>	<u>\$ 1,208,517</u>
Total Operating Revenues	\$ 192,617	\$ 371,146	\$ 563,763
Total Operating Expenses	<u>169,651</u>	<u>356,085</u>	<u>525,736</u>
Operating Income/(Loss)	22,966	15,061	38,027
Non-Operating Revenues/(Expenses)	<u>4,266</u>	<u>9,481</u>	<u>13,747</u>
Change in Net Assets	<u>\$ 27,232</u>	<u>\$ 24,542</u>	<u>\$ 51,774</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 9.      Investment in Affiliates, Continued**

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**Gas Departments of Hildale/Colorado City**

The Gas Distribution Systems Management, Operations and Maintenance Agreement (the Gas Departments) have not yet been formed by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). However, the Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") intend to enter into an "Inter-Governmental Agreement."

Each City will acquire its own Gas system which will be independently owned and financed and reflected in the funds of the Gas Departments. Each City's ownership percentage in the Gas Departments will be calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's boundary. Common operating revenues and expenditures will also be allocated based on said percentages.

The Power Board of Trustees have been assigned the responsibility for the Gas Departments. The board consists of seven trustees, three appointed by the Mayor and Council of Hildale City and four appointed by the Mayor and Council of Colorado City. Each trustee will be entitled to one vote.

The Gas Departments' audited financial statements as of June 30, 2005, can be obtained at the following address:

Hildale City  
320 E. Newel Avenue  
Hildale, Utah 84784

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 9. Investment in Affiliates, Continued**

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**Gas Departments, (Continued)**

The following is a summary of the total assets, liabilities, revenues, and expenditures associated with the Gas Departments and their allocation between the Cities for the year ended June 30, 2005:

	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Total Assets	<u>\$ 316,676</u>	<u>\$ 306,574</u>	<u>\$ 623,250</u>
Current Liabilities	\$ 56,086	\$ 64,662	\$ 120,748
Long-Term Liabilities	<u>12,894</u>	<u>12,894</u>	<u>25,788</u>
Total Liabilities	<u>68,980</u>	<u>77,556</u>	<u>146,536</u>
Net Assets	<u>247,696</u>	<u>229,018</u>	<u>476,714</u>
Total Net Assets	<u>247,696</u>	<u>229,018</u>	<u>476,714</u>
Total Liabilities and Net Assets	<u>\$ 316,676</u>	<u>\$ 306,574</u>	<u>\$ 623,250</u>
Total Operating Revenues	\$ 265,754	\$ 507,008	\$ 772,762
Total Operating Expenses	<u>215,593</u>	<u>480,414</u>	<u>696,007</u>
Operating Income/(Loss)	<u>50,161</u>	<u>26,594</u>	<u>76,755</u>
Non-Operating Revenues/(Expenses)	<u>26,599</u>	<u>43,142</u>	<u>69,741</u>
Change in net assets	<u>\$ 76,760</u>	<u>\$ 69,736</u>	<u>\$ 146,496</u>

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 10.      Power Sales Contracts - Concentration of Risk**

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Twin City Power entered into a firm power sales agreement with the City of St. George, wherein Twin City Power agreed to sell firm power and the associated energy to the City of St. George. The agreement was effective July 1, 1994 through June 30, 2024. However, this power sales agreement was terminated effective July 15, 2003. Actual power sales to St. George City under contract were terminated in December of 2002. Total sales to St. George City for fiscal year 2002 were \$2,847,439 and \$1,131,000 for fiscal year 2003. During fiscal year 2004, Twin City Power generated power for St. George City during July and August to meet peak demands. Wholesale power sales to St. George City for fiscal year 2004 amounted to \$ 209,447 as shown on the Statement of Revenues, Expenses and Changes in Net Assets. Twin City Power did not sale power to St. George City in fiscal year 2005.

Hildale City and Colorado City entered into a power sales contract on December 15, 1995, wherein Colorado City agrees to purchase energy generated by Hildale City. The charge to Colorado City for capacity and energy is Colorado City's pro rata share of the operation and maintenance expenses and capital costs during the period, after the application of all other revenues. During the current fiscal year, Colorado City was charged \$73,762 (60.01%) and the Hildale City Distribution fund was charged \$49,155 (39.99%). Amounts due to the Hildale City generation fund by the Colorado City and Hildale City distribution funds are \$1,087,925 and \$54,746 respectively.

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**NOTE 11.      Natural Gas Price Issues**

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Natural gas costs are have risen substantially in recent years. Expectations of the generation plant assumed natural gas costs at under \$2.00 per decatherm. Natural gas pricing has been as high as \$7.00 per decatherm and higher throughout some of the winter months for fiscal year 2005. Although the City has acquired hedge positions in the Rocky Mountain gas fields, on March 31, 2002, one half of the hedge positions expired. Thus, the City is currently purchasing gas on a month-to-month basis for one half of the required purchases.

As a result of high gas costs, the City has not been able to continue generating power under the St. George City contract. As discussed in Note 10, Twin City Power's contract with St. George City was irrevocably cancelled.

Rolls Royce terminated its long-term maintenance agreement with the generation plant in the prior year. They terminated the agreement due to generation shutdowns and unacceptable natural gas prices. Currently, any maintenance and parts for the generation plant's turbine generators are the sole responsibility and cost of Twin City Power.

**HILDALE CITY**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 12. Bond Covenants – Disclosures - Defaults**

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The City's Power fund **net revenues for the current fiscal year failed to meet the requirement** set forth in Section 6.13(b) of the Series 1995 and Series 1997 bond resolutions/covenants.

The net revenue requirement for the current fiscal year is \$3,405,196 which is 1.25 times the aggregate debt service for the forthcoming fiscal year. The actual net revenues were \$2,909,977 which yields a **shortfall of \$495,219.**

As discussed in Note 10, as of July 15, 2003, Twin City Power's **firm power sales agreement with St. George City was terminated.** The cancellation of this contract is an event of default under the bond resolutions.

During fiscal year 2005, Twin City Power **failed to make the required principal payments on two of its outstanding Electric Revenue Bonds, Series 1995 and Series 1997.** Total principal past due as of June 30, 2005 was \$735,000. **Twin City Power has not made any principal payments on the bonds listed above since fiscal year 2003 through the issuance date of the financial statements.** Non-payment constitutes default under both bond resolutions.

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**NOTE 13. Individual Fund Disclosures**

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**Segment Information:**

The Sewer Fund accounts for the operation and maintenance of the sewer collection and treatment system. The segment information for the Sewer Fund is available in the basic financial statements. The equity joint venture interest in the gas, water and electric utilities are available in footnote 9.

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**NOTE 14. Operating Leases**

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The City entered into two non-cancelable operating leases during the year for heavy equipment. Total costs for such leases were \$22,736 for the year ended June 30, 2005. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Total
2006	\$ 44,026
2007	35,492
2008	13,819
Total remaining lease payments	<u>\$ 93,337</u>

**SUPPLEMENTARY SCHEDULES**

**HILDALE CITY, UTAH**  
**Supplementary Information on Bond Requirements**  
**June 30, 2005**

The Series 1995 and 1997 Electric System Bond Resolutions set forth certain covenants and restrictions. The City is not in compliance with all covenants and restrictions for the Electric System Bond Resolution requirements see Note 12. Additional disclosures required by the Resolutions are:

	Total Billings 2004-2005	Average Per Month	Average Per Customer	Total Customers
CCA Residential	\$ 1,448,214.92	\$120,684.58	\$ 2,501.23	579
CCA Commercial	366,499.28	30,541.61	3,593.13	102
CCA Public	361,586.07	30,132.17	32,871.46	11
Total CCA Billings	<u>\$ 2,176,300.27</u>	<u>\$181,358.36</u>	<u>\$ 3,144.94</u>	<u>692</u>
HCU Residential	\$ 808,224.19	\$ 67,352.02	\$ 3,132.65	258
HCU Commercial	537,904.36	44,825.36	7,576.12	71
HCU Public	101,586.64	8,465.55	12,698.33	8
Total HCU Billings	<u>\$ 1,447,715.19</u>	<u>\$120,642.93</u>	<u>\$ 4,295.89</u>	<u>337</u>

Insurance coverage in effect at June 30, 2005:

Type	Policy Number	Effective	Expires	Limits
<b>Coverage with Utah Local Governments Trust:</b>				
General Liability	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Property	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Automobile physical damage	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Uninsured motorist	11720-GL351-2004	12/15/2004	Continuous	\$ 65,000
<b>Coverage with Liberty Surplus Insurance Corporation:</b>				
Power Plant Property	5D117585004	4/1/2005	4/1/2006	\$ 10,874,200
Business Interruption	5D117585004	4/1/2005	4/1/2006	\$ 4,669,048



**FEDERAL AND STATE REPORTS**



**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.L.C.

**CPA'S & ADVISORS**

**Independent Auditors' Report on Compliance with  
Laws and Regulations and on  
Internal Control over Financial Reporting  
Based on an Audit of Basic  
Financial Statements Performed in Accordance  
with *Government Auditing Standards***

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

The Honorable Mayor and  
City Council  
Hildale City, Utah

We have audited the basic financial statements of the Hildale City, Utah as of and for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Hildale City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance, which we have reported to management of Hildale City in the accompanying management letter dated September 15, 2005.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Hildale City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal

course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Hildale City in the accompanying management letter dated September 15, 2005.

This report is intended solely for the information and use of the mayor, audit committee, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
August 31, 2005



**KEMP BURDICK**

KEMP BURDICK HINTON & HALL, L.C.

**CPA'S & ADVISORS**

**Independent Auditors' Report on  
State Legal Compliance**

Honorable Mayor and  
City Council  
Hildale City, Utah

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the basic financial statements of Hildale City, Utah, for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. As part of our audit, we have audited Hildale City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)

The City also received the following non-major grants which are not required to be audited for specific compliance requirements: (However, these programs were subjected to test work as part of the audit of Hildale City's financial statements.)

EMS Grants (Department of Health)  
Wildland Fire Grant (Department of Natural Resources)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation and Property Tax Limitations  
Liquor Law Enforcement  
B & C Road Funds  
Justice Courts  
Other General Compliance Issues  
Uniform Building Code Standards  
Impact Fees and Other Development Fees  
Asset Forfeitures

The management of Hildale City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying findings and recommendations letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Hildale City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.

August 31, 2005



**HILDALE CITY**  
**Findings and Recommendations**  
**For the Year Ended June 30, 2005**

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Honorable Mayor and  
City Council  
Hildale City, Utah

During our audit of the funds of Hildale City for fiscal year 2004-2005, we noted improvements in the City's accounting and budgeting system and wish to commend the City for making changes and improvements. We also noted areas needing corrective action in order for the City to be in compliance with laws and regulations and we found circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration:

**Compliance Findings and Recommendations:**

1. Fund Deficits

Finding

Utah code section 10-6-117 states "The governing body of any city may not make any appropriation in the final budget of any fund in excess of the estimated expendable revenue for the budget period of the fund." It further states that "There shall be included as an item of appropriation in each fund for any budget period any existing deficit as of the close of the last completed fiscal period, not previously included in the budget of the current period, to the extent of at least 5% of the total revenue of the fund in its last completed fiscal period."

We noted during our audit that no appropriation was made on the FY 2005 adopted budget to relieve the fund deficits in the Hildale Distribution Fund and Colorado City Distribution Fund. We also noted that no appropriation was made on the FY 2006 budget for the deficit balance in the aforementioned Funds.

Recommendation

We recommend that the Twin City Power Board continue to make it their highest priority to relieve the deficit fund balances in the aforementioned funds by a variety of means including, but not limited to, refinancing, raising electricity rates, renegotiating contracts and using cost reduction measures. We also recommend that measures be taken in the budgeting process to appropriate for deficits created from prior year's operations in order to comply with state law.

2. Fidelity Bond

Finding

While performing our test work, we discovered that the State required Fidelity Bond amount is underfunded. The bond amount should provide at least \$328,385 in coverage, but the current bond amount is \$300,000.

Recommendation

Increase the Bond coverage to cover the required amount.

3. Audit Report

Finding

Due to the GASB 34 conversion process, the City failed to submit its audit report to the State Auditor before the December deadline. In addition, the management responses to the auditor's findings and recommendations for the fiscal year ending 2004 were still not submitted as of September 6, 2005. The State Auditor's correspondence indicates that the fiscal year 2004 financial statements have not been approved because of the lack of response to the auditor findings.

Recommendation

We recommend that the City establish procedures to ensure that the audit report and management's responses to the findings and recommendations are prepared timely so that the reports can be submitted in a timely manner. We recommend that City's management give high priority to responding to the fiscal year 2004 findings to avoid any state funding issues.

4. Impact Fee Accounting

Finding

The State of Utah Legal Compliance audit guide states the following:

"Each local political subdivision collecting impact fees shall:

- a. establish separate interest bearing ledger accounts for each type of public facility for which an impact fee is collected;
- b. deposit impact fee receipts in the appropriate ledger account;
- c. retain the interest earned on each fund or account in the fund or account; and
- d. at the end of each fiscal year, prepare a report on each fund or account showing:
  - 1) the source and amount of all monies collected, earned, and received by the fund or account; and
  - 2) each expenditure from the fund or account.

This report is a public document and should be available for public inspection during regular office hours. (*Utah Code 11-36-301*)”

We concluded during our test work that sewer impact fees are being collected properly and spent in accordance with State law; however, as is stated in item d. above, a report was not prepared by management at year end to show an accounting for the impact fees.

#### Recommendation

We recommend that management prepare an accounting as specified above at the end of each fiscal year for sewer impact fees to comply with State law.

### **General Findings and Recommendations:**

#### **1. Bond Covenants**

##### Finding

The City's Power fund net revenues for the current fiscal year failed to meet the requirement set forth in Section 6.13(b) of the Series 1995 and Series 1997 bond resolutions/covenants. The net revenue requirement for the current fiscal year is \$3,405,196 which is 1.25 times the aggregate debt service for the forthcoming fiscal year. The actual net revenues were \$2,909,977 which yields a shortfall of \$495,219. There were also shortfalls in the prior years of \$634,786, \$77,635, \$278,464, \$235,356, \$329,671, and \$1,141,032.

A contributing factor to the lack of revenues from power generation was the termination of the power contract with St. George City. Termination of this contract was also a default under the bond resolutions.

During fiscal year 2005, Twin City Power failed to make the required principal payments on two of its outstanding Electric Revenue Bonds, Series 1995 and Series 1997 shown in Note 6. Total principal past due as of June 30, 2005 was \$735,000. Twin City Power has not made any principal payments on the bonds listed above since fiscal year 2003 through the issuance date of the financial statements. Non-payment constitutes default under both bond resolutions.

##### Recommendation

We understand there is a supplemental resolution which modifies the electric revenue bond documents and allows the City to draw on debt reserves and run below the 125% debt service coverage ratio without bondholders taking adverse action against the City; however, we recommend that the City continue to take steps such as refinancing or rate restructuring or cost reductions necessary to enable the City to meet the revenue requirements established by the bond resolutions.



2. Bond Reserve Accounts – Twin City Power

Finding

The following is a list of required reserve accounts as specified in the bond covenants showing the under funded amounts as of June 30, 2005.

Account	Under funded Amount
1995 - Electric Revenue Bond - Debt Service Reserve	\$ 2,008,573
1995 - Electric Revenue Bond - Renewal and Replacement	\$ 406,389

We noted that qualified expenditures were made out of the 1995 Electric Revenue Bond Renewal and Replacement Fund in prior years, which contributed to its under funded position.

Recommendation

We understand that management is aware of the under funded amounts and has taken steps toward eliminating these under funded amounts. We recommend that the City continue its efforts and transfer sufficient monies into the specified reserve accounts within the time constraints outlined in the bond covenants.

3. Bond Reserve Accounts – Hildale City Proprietary Fund (Sewer Fund)

The following is a list of required reserve accounts as specified in the Series 2000 bond covenants showing the under funded amounts at of June 30, 2005:

Account	Under funded Amount
Series 2000 A, B and C Bond Fund	\$ 7,432
Series 2000 B and Series 2000 C Reserve Fund	\$ 45,828
Series 2000 A Emergency Repair and Replacement Fund	\$ 3,314

Recommendation

We recommend that the City re-examine its procedures for properly funding required bond reserve accounts to ensure that each reserve account is properly funded.

4. Overpayment of Sales Tax

Finding

While performing our test work for fiscal year 2004, we discovered that TCP was overpaying sales tax to the State of Utah for commercial power sales. We noted that some effort had been exerted to correct the problem during fiscal year 2005. In fact, TCP had applied for refunds of approximately \$6,000 during 2005. However, upon examination of the sales tax payable account at year end, we determined along with management that TCP had still overpaid its sales tax by \$7,937.

Recommendation

We commend City's management for their efforts to resolve this issue. We recommend that TCP re-examine its sales tax remittance procedures and correct the errors. We also recommend that TCP contact the Utah State Tax Commission and determine the appropriate procedure for obtaining a refund of over paid sales taxes.

Responses

Please respond to the above findings and recommendations in letter form for submission to the State Auditor's office as required by State law.

This letter is intended solely for the use of the Mayor, City Council, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to each of you who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
September 15, 2005

**GAS DEPARTMENTS OF  
HILDALE/COLORADO CITY  
(GAS DISTRIBUTION JOINT MANAGEMENT, OPERATIONS & MAINTENANCE AGREEMENT)  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005  
WITH REPORT OF  
CERTIFIED PUBLIC ACCOUNTANTS  
GAS DEPARTMENTS**



**KEMP BURDICK**  
KEMP BURDICK HINTON & HALL L.L.C.  
**CPA'S & ADVISORS**

## Table of Contents

### FINANCIAL SECTION

Report of Independent Certified Public Accountants' .....	1
Management's Discussion and Analysis.....	2
Basic Financial Statements:	
Statement of Net Assets .....	7
Statement of Revenues, Expenses and Changes in Net Assets.....	8
Statement of Cash Flows .....	9
Notes to Financial Statements.....	10

### OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

Report on Compliance with Federal Laws and Regulations and Internal Control.....	23
Findings and Recommendations .....	25



**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.L.C.

**CPA'S & ADVISORS**

**Independent Auditors' Report on the  
Basic Financial Statements**

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Gas Departments of Hildale/Colorado City

We have audited the accompanying financial statements for the Gas Departments of Hildale, Utah and Colorado City, Arizona as of June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Departments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Gas Departments as of June 30, 2005 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2005 on our consideration of the Gas Departments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
August 31, 2005

## **GAS DEPARTMENTS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Gas Departments, we offer readers of the Departments' financial statements this narrative overview and analysis of the financial activities of the Departments for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

#### **FINANCIAL HIGHLIGHTS**

- Total assets exceed total liabilities (net assets) by \$476,714 at the close of the fiscal year.
- Total net assets increased by \$146,496.
- Total operating revenues increased from \$394,970 in fiscal year 2004 to \$772,762 in fiscal year 2005.
- Total operating expenses for fiscal year 2005 were \$696,007.
- At the end of the current fiscal year, unreserved net assets for the Departments were \$119,833.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements of the Gas Departments (a business-type activity) consist of the following:

**Statement of Net Assets** – Presents information on all of the Gas Departments' assets and liabilities, with the difference reported as "Total Net Assets." The total net assets, when viewed over time, will track the Departments' financial position.

**Statement of Revenues, Expense, and Changes in Net Assets** - Presents information regarding the change in the Departments' net assets during the year. The Departments use the accrual basis of accounting in which revenues and expenditures are recognized when earned and incurred. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

**Statement of Cash Flows** – Presents net cash flows for operating activities, investing activities, and capital and related financing activities. It also includes the net cash increase for the period, cash at the beginning of the period and cash at the end of the period.

#### **FINANCIAL ANALYSIS**

Condensed financial information derived from the basic financial statements is presented below followed by a brief narrative on selected items.

## GAS DEPARTMENTS

### Statement of Net Assets (Condensed)

	6/30/2004	6/30/2005
Current Assets	\$ 178,615	\$ 266,369
Noncurrent Assets	263,224	356,881
Total Assets	<u>441,839</u>	<u>623,250</u>
Current Liabilities	103,749	120,748
Long-Term Liabilities	7,872	25,788
Total Liabilities	<u>111,621</u>	<u>146,536</u>
Total Net Assets	<u>\$ 330,218</u>	<u>\$ 476,714</u>

### Statement of Revenues, Expenses and Changes in Net Assets (Condensed)

	6/30/2004	6/30/2005
Total Operating Revenues	\$ 394,970	\$ 772,762
Total Operating Expenses	342,687	696,007
Operating Income/(Loss)	52,283	76,755
Non-Operating Revenues/(Expenses)	18,983	69,741
Change in Net Assets	<u>\$ 71,266</u>	<u>\$ 146,496</u>

Operating expenses this year were \$696,007 as shown above. Operating revenues were \$772,762. Operating income as a percentage of operating revenues decrease by 4% from the prior year due to an increase in wholesale gas costs.

The Gas Departments provide propane and natural gas distribution to customers. The Departments' net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net assets. During the fiscal year ended June 30, 2005 net assets increased by \$146,496.

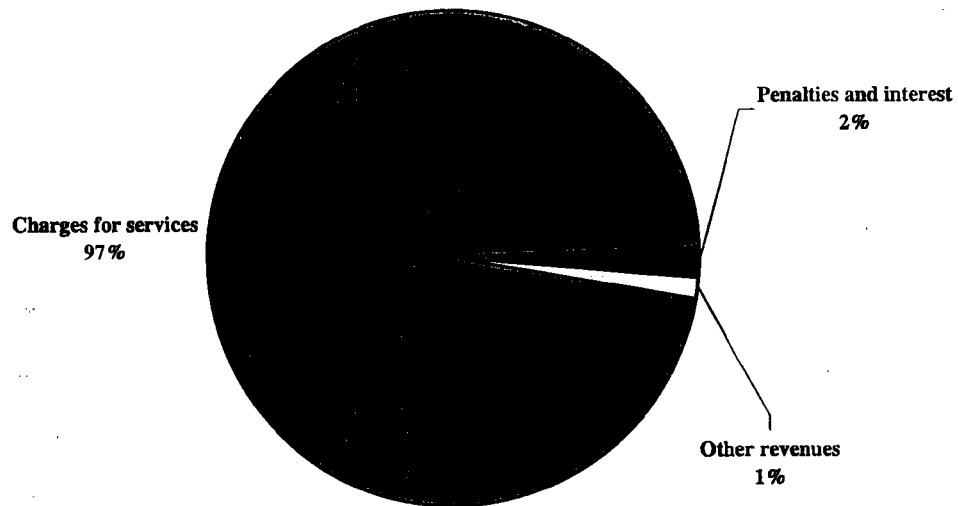
A comparison of the operating revenues and operating expenses for the current and prior year is presented below:

# **GAS DEPARTMENTS' REVENUE BY SOURCE (Combined)**

**Year ended June 30, 2004 and 2005**

	<u>6/30/2004</u>	<u>6/30/2005</u>
REVENUES:		
Charges for services	\$377,744	\$746,604
Penalties and interest	7,279	14,976
Other revenues	<u>9,947</u>	<u>11,182</u>
Total Revenues	<u><u>\$394,970</u></u>	<u><u>\$772,762</u></u>

**Revenues by Source - Current Year**

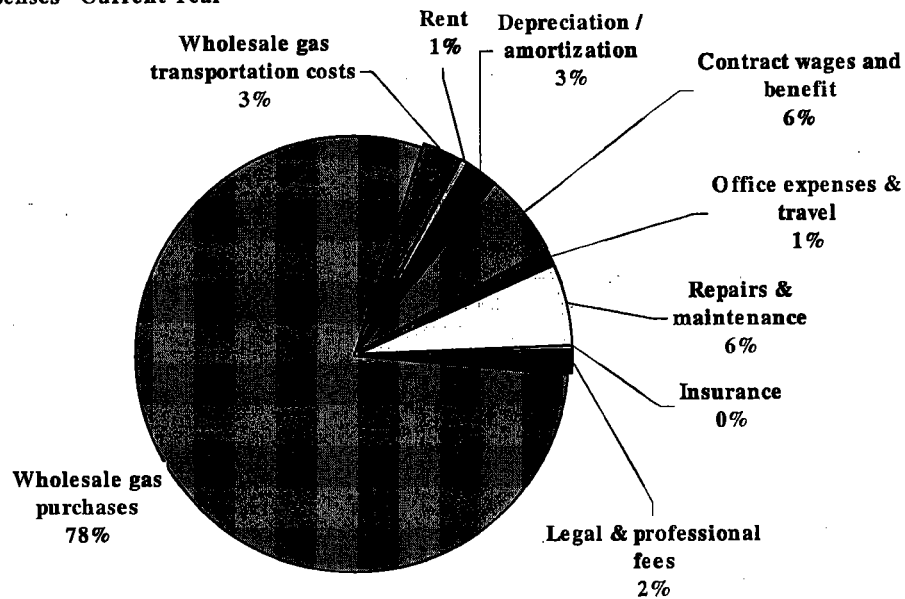




**GAS DEPARTMENTS' OPERATING EXPENSES (Combined)**  
**Year ended June 30, 2004 and 2005**

	<u>6/30/2004</u>	<u>6/30/2005</u>
<b>OPERATING EXPENSES:</b>		
Contract wages and benefit	\$ 21,815	\$ 42,492
Office expenses & travel	4,408	7,559
Repairs & maintenance	45,886	42,754
Insurance	1,035	1,064
Legal & professional fees	19,794	13,047
Wholesale gas purchases	220,678	548,810
Wholesale gas transportation costs	13,806	18,523
Rent	3,431	4,005
Depreciation / amortization	<u>11,834</u>	<u>17,753</u>
 Total Operating Expenses	 <u>\$ 342,687</u>	 <u>\$ 696,007</u>

**Operating Expenses - Current Year**



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the Departments are those assets that are used in performance of Departments' functions including vehicles, equipment, buildings and the gas distribution system. At the end of fiscal year 2005, net capital assets of the Departments activities totaled \$356,881.

### **Debt**

At year-end, the Departments had \$33,230 in long-term debt. During the current fiscal year, the Departments total debt increased by \$11,358. (See notes to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the Departments Budget for fiscal year 2005/2006, the Departments Board and management were cautious as to the growth of revenues and expenditures. Overall operating expenditures were budgeted so as to contain costs at approximately the same level as fiscal year 2004/2005. There are no large capital projects anticipated for FY 2005/2006.

## **CONTACTING THE DEPARTMENTS' FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Departments finances for all those with an interest in the government's finances and to show the Departments accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeremiah Barlow, Treasurer, P.O. Box 840490, Hildale, Utah 84784.

**GAS DEPARTMENTS**  
**Statement of Net Assets**  
**June 30, 2005**

	Distribution		Totals (Memorandum Only)	
	Hildale City	Colorado City	June 30, 2005	June 30, 2004
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ 104,804	\$ -	\$ 104,804	\$ 62,711
Receivables	21,897	59,983	81,880	43,361
Receivables - Standard Fuel	41,277	38,408	79,685	58,840
Internal balances	17,828	(17,828)	-	-
Total Current Assets	<u>185,806</u>	<u>80,563</u>	<u>266,369</u>	<u>164,912</u>
<b>Noncurrent assets:</b>				
Property and equipment	145,316	254,216	399,532	288,121
Accumulated depreciation	(14,446)	(28,205)	(42,651)	(24,897)
Total Noncurrent assets	<u>130,870</u>	<u>226,011</u>	<u>356,881</u>	<u>263,224</u>
Total Assets	<u>\$316,676</u>	<u>\$306,574</u>	<u>\$623,250</u>	<u>\$ 428,136</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 9,987	\$ 22,533	\$ 32,520	\$ 15,780
Accrued liabilities	1,101	-	1,101	1,426
Standard Fuel payable	41,277	38,408	79,685	58,840
Capital lease payable - current portion	3,721	3,721	7,442	-
Notes payable - current portion	-	-	-	14,000
Total Current Liabilities	<u>56,086</u>	<u>64,662</u>	<u>120,748</u>	<u>90,046</u>
<b>Long-Term Liabilities</b>				
Capital lease payable - net of current portion	12,894	12,894	25,788	-
Notes Payable-net of current portion	-	-	-	7,872
Total Long-Term Liabilites	<u>12,894</u>	<u>12,894</u>	<u>25,788</u>	<u>7,872</u>
Total Liabilities	<u>68,980</u>	<u>77,556</u>	<u>146,536</u>	<u>97,918</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	130,870	226,011	356,881	255,352
Unreserved	116,826	3,007	119,833	74,866
Total Net Assets	<u>\$247,696</u>	<u>\$229,018</u>	<u>\$476,714</u>	<u>\$ 330,218</u>

The accompanying notes are an integral part of the financial statements.

**GAS DEPARTMENTS**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2005**

	Distribution		Totals (Memorandum Only)	
	Hildale City	Colorado City	June 30, 2005	June 30, 2004
<b>Operating revenues</b>				
Charges for services	\$256,088	\$490,516	\$746,604	\$377,744
Penalties and interest	5,672	9,304	14,976	7,279
Other revenues	3,994	7,188	11,182	9,947
Total operating revenues	<u>265,754</u>	<u>507,008</u>	<u>772,762</u>	<u>394,970</u>
<b>Operating expenses</b>				
Contract wages and benefit	21,246	21,246	42,492	21,816
Office expenses & travel	4,763	2,796	7,559	4,405
Repairs & maintenance	18,854	23,900	42,754	45,887
Insurance	1,064	-	1,064	1,035
Legal & professional fees	6,793	6,254	13,047	19,794
Wholesale gas purchases	136,287	412,523	548,810	220,678
Wholesale gas transportation costs	18,523	-	18,523	13,806
Rent	2,002	2,003	4,005	3,432
Depreciation/amortization	6,061	11,692	17,753	11,834
Total operating expenses	<u>215,593</u>	<u>480,414</u>	<u>696,007</u>	<u>342,687</u>
<b>Operating income</b>	<u>50,161</u>	<u>26,594</u>	<u>76,755</u>	<u>52,283</u>
<b>Non-operating revenues/(expenses)</b>				
Interest income	-	1,004	1,004	701
Interest expense and fiscal charges	(9)	-	(9)	(1)
Contributed capital	26,608	42,138	68,746	18,555
Gain/ (loss) on disposal of assets	-	-	-	(272)
Total non-operating revenue (expense)	<u>26,599</u>	<u>43,142</u>	<u>69,741</u>	<u>18,983</u>
Change in net assets	76,760	69,736	146,496	71,266
Total net assets, beginning of year	<u>170,936</u>	<u>159,282</u>	<u>330,218</u>	<u>258,952</u>
Total net assets, end of year	<u>\$247,696</u>	<u>\$229,018</u>	<u>\$476,714</u>	<u>\$330,218</u>

The accompanying notes are an integral part of the financial statements.

**GAS DEPARTMENTS**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2005**

	Distribution		Totals (Memorandum Only)	
	Hildale City	Colorado City	June 30, 2005	June 30, 2004
<b>Cash flows from operating activities:</b>				
Cash received from customers, service fees	\$ 251,978	\$ 456,107	\$ 708,085	\$ 369,166
Cash received from customers, other	9,666	16,492	26,158	17,226
Cash paid to suppliers	(210,700)	(451,139)	(661,839)	(328,164)
Cash paid to Colorado City Gas	(4,125)	-	(4,125)	4,960
Cash received from Hildale City Gas	-	4,125	4,125	(4,960)
Cash flows from operating activities	<u>46,819</u>	<u>25,585</u>	<u>72,404</u>	<u>58,228</u>
<b>Cash flows from capital and related financing activities:</b>				
Purchase of fixed assets	(31,325)	(46,855)	(78,180)	(52,873)
Principal paid on long-term debt	-	(21,872)	(21,872)	(20,501)
Interest paid	(9)	-	(9)	(1)
Capital contributions	<u>26,608</u>	<u>42,138</u>	<u>68,746</u>	<u>18,555</u>
Cash flows from capital and related financing activities	<u>(4,726)</u>	<u>(26,589)</u>	<u>(31,315)</u>	<u>(54,820)</u>
<b>Cash flows from investing and other activities:</b>				
Interest on investments	<u>-</u>	<u>1,004</u>	<u>1,004</u>	<u>701</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>42,093</b>	<b>-</b>	<b>42,093</b>	<b>4,109</b>
Cash and cash equivalents, beginning of year	<u>62,711</u>	<u>-</u>	<u>62,711</u>	<u>58,602</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 104,804</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 104,804</u></b>	<b><u>\$ 62,711</u></b>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>				
Net operating income	\$ 50,161	\$ 26,594	\$ 76,755	\$ 52,283
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation/amortization	6,061	11,692	17,753	11,834
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	(4,110)	(34,409)	(38,519)	(8,578)
(Increase)/Decrease in Standard Fuel receivables	(13,356)	(7,489)	(20,845)	(52,673)
(Increase)/Decrease in due from other funds	(4,125)	-	(4,125)	4,960
Increase/(Decrease) in accounts payable	(1,272)	18,012	16,740	2,539
Increase/(Decrease) in accrued liabilities	104	(429)	(325)	150
Increase/(Decrease) in Standard Fuel payable	13,356	7,489	20,845	52,673
Increase/(Decrease) in due to other funds	-	4,125	4,125	(4,960)
Cash flows from operating activities	<u>\$ 46,819</u>	<u>\$ 25,585</u>	<u>\$ 72,404</u>	<u>\$ 58,228</u>

**Supplementary Schedule of Non-cash Investing and Financing Activities**

Purchase of fixed assets with capital lease	\$ 16,615	\$ 16,615	\$ 33,230	\$ -
Disposal of fixed assets	\$ -	\$ -	\$ -	\$ (272)

The accompanying notes are an integral part of the financial statements.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies**

---

**General**

The Gas Distribution Systems, Operations and Maintenance Agreement has not yet been formed by the Town of Colorado City, Arizona and Hildale City, Utah. The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") intend to enter into the "Inter-Governmental Agreement."

Each City has acquired its own gas system which is independently owned and financed and reflected in the funds of the Gas Departments. Each City's ownership percentage in the Gas Departments was calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's boundary. Common operating expenditures are allocated based on actual revenues billed to each City's customers.

The "Gas Board" consists of seven members, three appointed by the Mayor and Council of Hildale City and four members appointed by the Mayor and Council of Colorado City. Each member is entitled to one vote. Budgeting and financing is done by the "Gas Board" and is ratified by each City's council.

**Reporting Entity**

In evaluating how to define the Gas Departments, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Gas Departments are able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Gas Departments.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

---

**NOTE 1.      Summary of Significant Accounting Policies, Continued**

---

**Basis of Presentation and Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Department's only fund is an enterprise fund.

Fund financial statements report detailed information about the Hildale City and Colorado City Gas Departments. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only funds of the Departments are enterprise funds. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The Departments apply all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Departments have elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for gas services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

---

**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Memorandum Totals**

The columns on the Statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**Budgets and Budgetary Accounting**

Annual budgets are prepared and adopted by each of the City Councils on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The Gas Departments' Board of Trustees adopts or ratifies by resolution, the budgets passed by each City Council.

Budgets for the proprietary fund types are prepared using the accrual basis of accounting.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Gas Departments.

**Accounts Receivable**

Accounts receivable consists solely of amounts due for gas services provided. Management does not consider an allowance for uncollectible accounts receivable necessary or material, and; therefore, no allowance has been recorded.

**Inventories**

Inventories and supplies are considered immaterial and are not recorded.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.



**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

---

**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Net Assets**

Net assets are the difference between assets and liabilities. Net assets invest in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors or grantors.

**Depreciable Fixed Assets**

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment	7 years
Distribution System	25 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in change in net assets for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

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**NOTE 2.      Deposits and Investments**

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The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Gas Departments' follow the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of The Gas Departments' funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

---

**NOTE 2.      Deposits and Investments, Continued**

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The Gas Departments participate in Hildale City's Central Treasury. The City's Central Treasury consists of the following at fiscal year end:

Far West Bank	\$ 182,387
State Treasurer's Investment Pool	697,941
U.S. Bank	1,088,288
Wells Fargo Bank	927,308
Zions First National Bank	213,221
Less amounts transferred to Hildale City and other Joint Utilities	(3,004,341)
	<u>\$ 104,804</u>

<u>Cash By Fund</u>	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Equity in Central Treasury	\$ 104,804	\$ -	\$ 104,804

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2005, \$2,197,056 of the Hildale City's central treasury's bank balance of \$2,597,057 was exposed to custodial credit risk because it was uninsured and collateralized.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

---

**NOTE 2.      Deposits and Investments, Continued**

---

**Investments**

The Money Management Act defines the types of securities authorized as an appropriate investment for the The Gas Departments' and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the The Gas Departments' to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 2. Deposits and Investments, Continued**

As of June 30, 2005 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 697,941	\$ 697,941	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 697,941</u>	<u>\$ 697,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Gas Departments' policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Gas Departments' policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2005 Hildale City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 697,941	\$ -	\$ -	\$ -	\$ 697,941
Total Fair Value	<u>\$ 697,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697,941</u>

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 3. Capital Assets**

The following table summarizes the changes to capital assets during the year ended June 30, 2005:

<b>Hildale City:</b>	<b>Balance 6/30/2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2005</b>
Capital assets not being depreciated:				
Land and land easements	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
System equipment	20,824	2,918	-	23,742
Distribution system	76,552	26,608	-	103,160
Machinery & Equipment	-	1,798	-	1,798
Automobiles & Trucks	-	16,615	-	16,615
Total capital assets being depreciated	97,376	47,939	-	145,315
Less accumulated depreciation for:				
System equipment	(573)	(1,771)	-	(2,344)
Distribution system	(7,812)	(3,684)	-	(11,496)
Machinery & Equipment	-	(329)	-	(329)
Automobiles & Trucks	-	(276)	-	(276)
Total accumulated depreciation	(8,385)	(6,060)	-	(14,445)
Total capital assets, being depreciated, net	88,991	41,879	-	130,870
Hildale City activities capital assets, net	\$ 88,991	\$ 41,879	\$ -	\$ 130,870

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 3. Capital Assets, Continued**

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	<u>Balance</u> <u>6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2005</u>
<b>Colorado City:</b>				
Capital assets not being depreciated:				
Land and land easements	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
System equipment	36,820	4,717	-	41,537
Distribution system	153,925	42,139	-	196,064
Automobiles & Trucks	-	16,615	-	16,615
Total capital assets being depreciated	190,745	63,471	-	254,216
Less accumulated depreciation for:				
System equipment	(3,037)	(4,379)	-	(7,416)
Distribution system	(13,475)	(7,037)	-	(20,512)
Automobiles & Trucks	-	(277)	-	(277)
Total accumulated depreciation	(16,512)	(11,693)	-	(28,205)
Total capital assets, being depreciated, net	174,233	51,778	-	226,011
Colorado City activities capital assets, net	<u>\$ 174,233</u>	<u>\$ 51,778</u>	<u>\$ -</u>	<u>\$ 226,011</u>

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 4. Long-Term Debt**

The following table summarizes the changes to long term debt during the year ended June 30, 2005:

	<u>Balance 6/30/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2005</u>	<u>Current Portion</u>
<b>Hildale City:</b>					
Capital lease payable	\$ -	\$ 16,615	\$ -	\$ 16,615	\$ 3,721
Total Hildale City	-	16,615	-	16,615	3,721
<b>Colorado City:</b>					
Capital lease payable	-	16,615	-	16,615	3,721
Notes payable	21,872	-	21,872	-	-
Total Colorado City	21,872	16,615	21,872	16,615	3,721
Total long-term debt	<u>\$ 21,872</u>	<u>\$ 33,230</u>	<u>\$ 21,872</u>	<u>\$ 33,230</u>	<u>\$ 7,442</u>

Long-term debt at June 30, 2005 is comprised of the following issue:

	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
<b><u>Capital Lease Payable</u></b>			
Lease payable to GMAC in monthly installments of \$798 through June 2009 at an interest rate of 7.15%.	\$ 16,615	\$ 16,615	\$ 33,230
Total long-term debt	16,615	16,615	33,230
Less current portion	(3,721)	(3,721)	(7,442)
Net long-term debt	<u>\$ 12,894</u>	<u>\$ 12,894</u>	<u>\$ 25,788</u>

**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 5. Capital Lease Payable**

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The Gas Departments entered into a lease agreement with GMAC for the purchase of a 2005 Chevrolet Utility Truck. Equipment capitalized under the lease amounts to \$33,230. Depreciation expense and accumulated depreciation on the capitalized lease is \$552 and \$552 respectively. The lease requires monthly payments of \$798 through June 2009, including interest of 7.15 percent.

The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the years ending June 30:

<u>Year ending June 30,</u>	<u>Total</u>
2006	9,576
2007	9,576
2008	9,576
2009	9,576
Thereafter	-
Total remaining lease payments	38,304
Less amount representing interest	(5,074)
Present value of net remaining lease payments	<u>\$ 33,230</u>

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**NOTE 6. Board of Trustees, Mayors and Councils**

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The Board of Trustees consists of four members appointed by the Town of Colorado City and three members appointed by Hildale City.

The Hildale City council consists of a mayor and five council members. The Colorado City council consists of a mayor and six council members.



**GAS DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 7.      Standard Fuel Accounts Receivable / Payable**

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Standard Fuel is currently installing the gas lines for both Colorado City and Hildale City customers who request installation. Rather than billing the Customers directly, the Gas Departments have agreed to bill each customer and remit the hook up fees to Standard Fuel upon collection. Thus an amount titled "Receivable - Standard Fuel" has been included on the balance sheet along with a corresponding "Standard Fuel Payable."

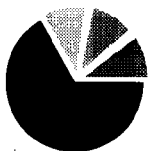
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**NOTE 8.      Risk Management**

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The Departments are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The gas distribution system for Hildale City is covered on Hildale City's insurance policy through the Utah Local Government Trust. The gas distribution system for Colorado City is covered on Colorado City's insurance policy through the Arizona Municipal Risk Retention Pool. All employees are employed by Colorado City and covered by Colorado City's insurance policy.

**FEDERAL AND STATE REPORTS**



**KEMPBURDICK**

KEMP BURDICK HINTON & HALL L.L.C.

**CPA'S & ADVISORS**

**Independent Auditors' Report on Compliance with  
Laws and Regulations and on  
Internal Control Over Financial Reporting  
Based on an Audit of Basic  
Financial Statements Performed in Accordance  
with *Government Auditing Standards***

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Gas Departments of Hildale/Colorado City

We have audited the basic financial statements of the Gas Departments of Hildale/Colorado City (the Gas Departments) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Gas Departments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the Gas Departments in a separate letter dated September 15, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gas Departments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees

in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Gas Departments in a separate letter dated September 15, 2005.

This report is intended solely for the information and use of the mayors, councils, power board, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
August 31, 2005



**KEMP BURDICK**

**KEMP BURDICK HINTON & HALL L.C.**

**CPA'S & ADVISORS**

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

**Findings and Recommendations**

Executive Director and  
Members of the Board of Trustees of  
Gas Departments of Hildale/Colorado City

During our audit of the funds of the Gas Departments of Hildale/Colorado City (the Gas Departments) for fiscal year ended June 30, 2005, we noted that management has made improvements to the accounting and budgeting system and we wish to commend management and the board on their achievements. However, we noted a few areas that need corrective action in order to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen the Gas Departments' accounting system and control over its assets.

Since the Gas Departments' accounting system is fully integrated with Hildale City's accounting system, we have included all of our findings and recommendations in the Hildale City management letter which will be made available to each participating board.

It has been a pleasure to be of service to the Gas Departments this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
September 15, 2005

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FAX (702) 346-3464

**TWIN CITY POWER JOINT MANAGEMENT,  
OPERATION AND MAINTENANCE AGREEMENT**

**(TWIN CITY POWER)**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2005**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**



**KEMPBURDICK**

**KEMP BURDICK HINTON & HALL L.C.**

**CPA'S & ADVISORS**

## **TWIN CITY POWER**

### **Table of Contents**

#### **FINANCIAL SECTION**

Report of Independent Certified Public Accountants .....	1
--	---

Management's Discussion and Analysis .....	3
--	---

#### **Basic Financial Statements:**

Statement of Net Assets .....	8
-------------------------------	---

Statement of Revenues, Expenses and Changes in Net Assets .....	9
---	---

Statement of Cash Flows.....	10
------------------------------	----

Notes to the Basic Financial Statements .....	11
---	----

#### **Supplementary Schedules:**

Supplementary Information on Bond Requirements.....	27
---	----

#### **OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

Report on Compliance with Federal Laws and Regulations and Internal Controls .....	29
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Findings and Recommendations .....	31
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**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.L.C.

**CPA'S & ADVISORS**

## Independent Auditors' Report

Executive Director and  
Members of the Board of  
Twin City Power

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the accompanying basic financial statements of Twin City Power Joint Management, Operation and Maintenance Agreement (Twin City Power) as of June 30, 2005, and for the year then ended. These basic financial statements are the responsibility of Twin City Power's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Twin City Power as of June 30, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005, on our consideration of Twin City Power's internal control structure and on its compliance with laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

The supplementary information on bond requirements is presented for purposes of additional analysis and is not a required part of the audited financial statements of Twin City Power. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



The accompanying financial statements have been prepared assuming that Twin City Power will continue as a going concern. As discussed in notes 5, 8, 9, and 10 to the financial statements, Twin City Power, under current conditions, is unable to operate the generation plant, sale wholesale power to consumers, and ultimately make payments on the outstanding revenue bonds. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters have been described in notes 5 and 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.

August 31, 2005

## **TWIN CITY POWER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Twin City Power, we offer readers of these financial statements a narrative overview and analysis of the financial activities of Twin City Power for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

#### **FINANCIAL HIGHLIGHTS**

- Net assets were a deficit balance of (\$31,560) as of June 30, 2005.
- Twin City power managed to improve its financial position by going from a loss of (\$563,393) in fiscal year 2004 to a positive change in net assets of \$2,231,181 in fiscal year 2005 through cost management measures, an electric rate increase, and the sale of a gas contract.
- The generation fund also sold gas on the open market generating gross revenue of \$2,159,166.
- Twin City Power failed to make the required principal payments on its outstanding Electric Revenue Bonds, Series 1995 and 1997 during the fiscal year. Total past due principal as of June 30, 2005 was \$735,000.
- The net revenue requirement for the fiscal year per the bond covenants is \$3,405,196 which is 1.25 times the aggregate debt service for the forthcoming fiscal year. The actual net revenues were \$2,909,977 which yielded a shortfall of \$495,219.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements of Twin City Power (a business-type activity) consist of the following:

**Statement of Net Assets** – Presents information on all of Twin City Power's assets and liabilities, with the difference reported as "Total Net Assets." The total net assets, when viewed over time, will track Twin City Power's financial position.

**Statement of Revenues, Expense, and Changes in Net Assets** - Presents information regarding the change in Twin City Power's net assets during the year. Twin City Power uses the accrual basis of accounting in which revenues and expenditures are recognized when earned and incurred. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

**Statement of Cash Flows** – Presents net cash flows for operating activities, investing activities, and capital and related financing activities. It also includes the net cash increase for the period, cash at the beginning of the period and cash at the end of the period.

#### **FINANCIAL ANALYSIS**

Condensed financial information derived from the basic financial statements is presented below followed by a brief narrative on selected items.

**POWER DEPARTMENTS**  
**Statement of Net Assets (Condensed)**

	<u>6/30/2004</u>	<u>6/30/2005</u>
Current Assets	\$ 1,231,118	\$ 3,379,249
Noncurrent Assets	<u>17,743,645</u>	<u>18,615,801</u>
Total Assets	<u>18,974,763</u>	<u>21,995,050</u>
Current Liabilities	2,123,548	3,332,655
Noncurrent Liabilities	19,080,000	18,660,000
Other Liabilities	<u>33,956</u>	<u>33,956</u>
Total Liabilities	<u>21,237,504</u>	<u>22,026,611</u>
Total Net Assets	<u>\$ (2,262,741)</u>	<u>\$ (31,561)</u>

**Statement of Revenues, Expenses and Changes in Net Assets (Condensed)**

	<u>6/30/2004</u>	<u>6/30/2005</u>
Total Operating Revenues	\$ 8,071,319	\$ 5,480,179
Total Operating Expenses	<u>7,282,931</u>	<u>4,785,181</u>
Operating Income/(Loss)	788,388	694,998
Non-Operating Revenues/(Expenses)	<u>(1,351,781)</u>	<u>1,536,183</u>
Change in Net Assets	<u>\$ (563,393)</u>	<u>\$ 2,231,181</u>

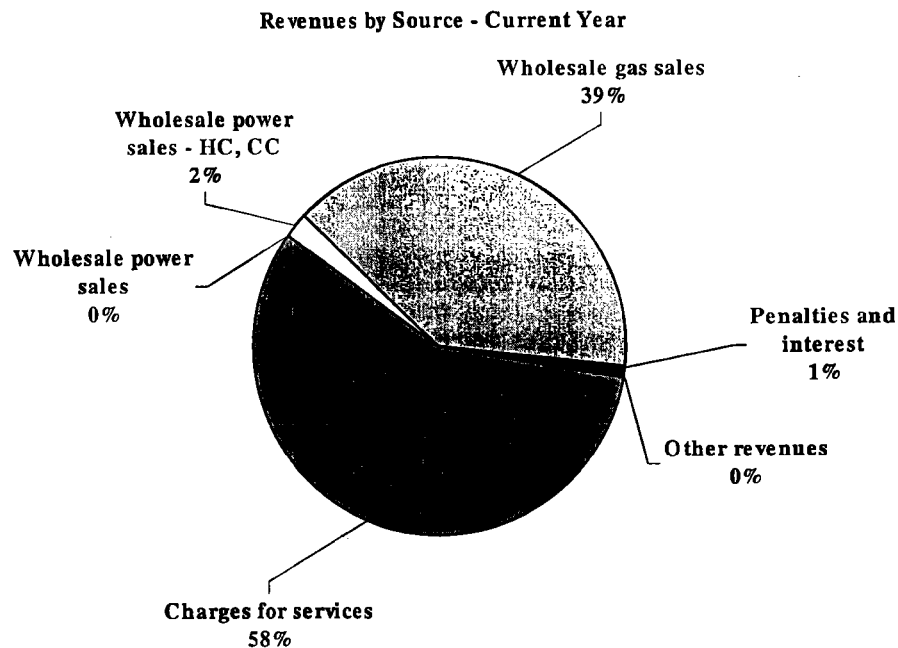
Operating income as a percentage of operating revenues increased from 9.8% in 2004 to 12.6% in fiscal year 2005.

Twin City Power provides electric generation and distribution to customers. Twin City Power's net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net assets. During fiscal year 2005, net assets increased by \$2,231,181.

A comparison of the operating revenues and operating expenses for the current and prior year is presented below:

**POWER DEPARTMENTS REVENUE BY SOURCE (Combined)**  
**Year ended June 30, 2004 and 2005**

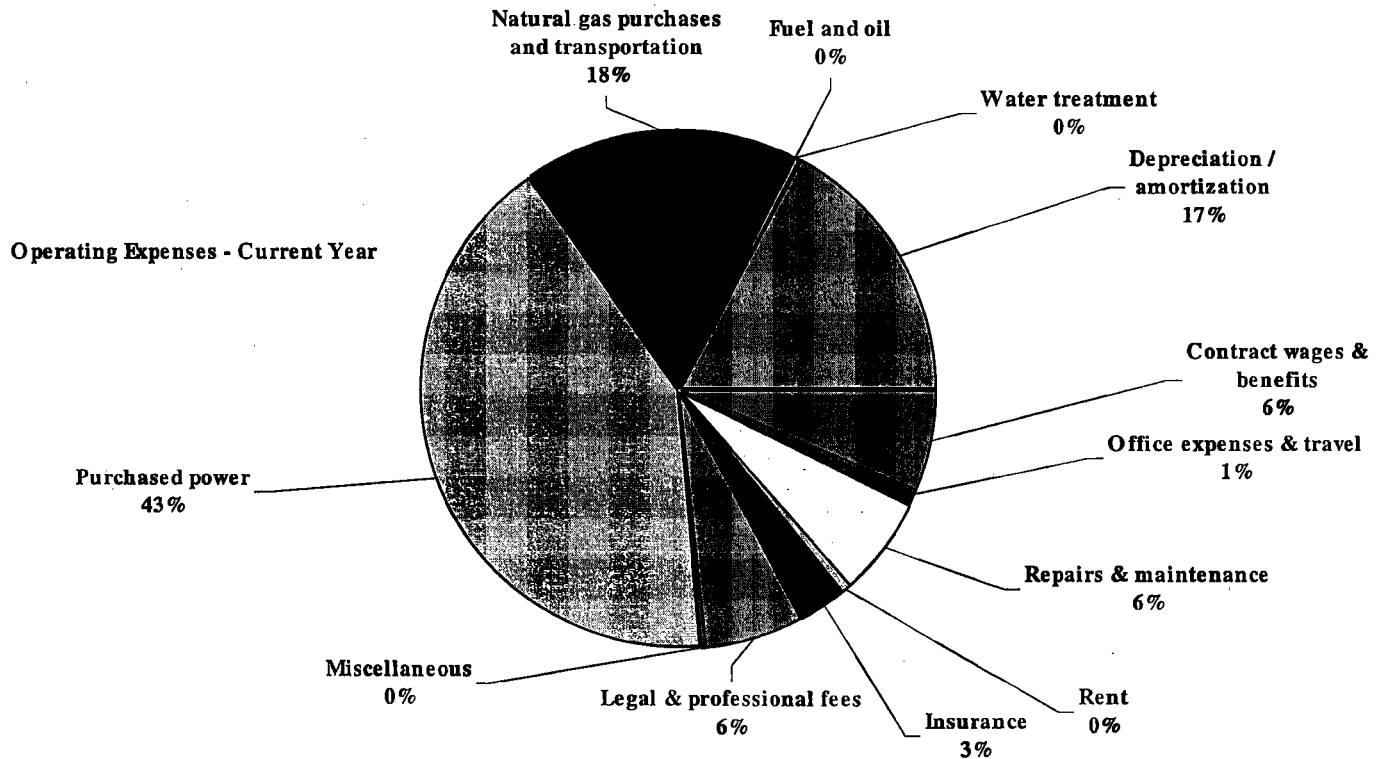
	<u>6/30/2004</u>	<u>6/30/2005</u>
<b>REVENUES:</b>		
Charges for services	\$ 3,282,693	\$ 3,129,792
Wholesale power sales	209,447	-
Wholesale power sales - HC, CC	3,197,972	122,917
Wholesale gas sales	1,256,913	2,159,166
Penalties and interest	74,085	60,502
Other revenues	<u>50,209</u>	<u>7,802</u>
 Total Revenues	 <u>\$ 8,071,319</u>	 <u>\$ 5,480,179</u>



# POWER DEPARTMENTS OPERATING EXPENSES (Combined)

Year ended June 30, 2004 and 2005

	6/30/2004	6/30/2005
<b>OPERATING EXPENSES:</b>		
Contract wages & benefits	\$ 381,928	\$ 306,592
Office expenses & travel	29,489	34,271
Repairs & maintenance	272,198	309,938
Rent	21,557	21,402
Insurance	146,872	147,188
Legal & professional fees	264,188	292,806
Miscellaneous	46,577	18,239
Purchased power	4,139,537	1,991,480
Natural gas purchases and transportation	1,096,203	819,480
Fuel and oil	28,909	4,466
Water treatment	53,001	18,679
Depreciation / amortization	802,472	820,640
<b>Total Operating Expenses</b>	<b>\$ 7,282,931</b>	<b>\$ 4,785,181</b>



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of Twin City Power are those assets that are used in performance of Twin City Power's functions including vehicles, equipment, buildings, generation system, and the power distribution system. At the end of fiscal year 2005, net capital assets of the Departments activities totaled \$13,640,145.

### **Debt**

At year-end, the Departments had \$19,815,000 in long-term debt. (See notes to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the Budget for fiscal year 2005/2006, the Power Board and management conservatively projected revenues and expenditures keeping in mind that the future of Twin City Power is uncertain. Overall operating expenditures were budgeted so as to contain costs at approximately the same level as fiscal year 2004/2005. There are no large capital projects anticipated for FY 2005/2006.

## **CONTACTING THE DEPARTMENTS' FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Departments finances for all those with an interest in the government's finances and to show the Departments accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeremiah Barlow, Treasurer, P.O. Box 840490, Hildale, Utah 84784.

**TWIN CITY POWER**  
**Statement of Net Assets**  
**Enterprise Funds**  
**June 30, 2005**

	Distribution		Generation	Combined
	Hildale	Colorado	Hildale	Total
	City	City	City	(Memorandum Only)
<b>Assets</b>				
Current Assets:				
Cash	\$ -	\$ -	\$ 2,424,938	\$ 2,424,938
Receivables (net of allowance)	177,876	255,937	33,063	466,876
Internal balances	(54,746)	(1,087,926)	1,142,672	-
Due from other governments	72,721	-	-	72,721
Inventory	131,611	197,416	-	329,027
Prepaid expenses	11,221	-	74,466	85,687
Total current assets	338,683	(634,573)	3,675,139	3,379,249
Noncurrent assets:				
Restricted cash	-	-	3,927,612	3,927,612
Property and equipment	1,113,335	2,331,013	16,948,369	20,392,717
Accumulated depreciation	(390,446)	(888,904)	(5,473,222)	(6,752,572)
Deferred charges	-	-	1,048,044	1,048,044
Total noncurrent assets	722,889	1,442,109	16,450,803	18,615,801
<b>Total Assets</b>	<b>\$ 1,061,572</b>	<b>\$ 807,536</b>	<b>\$ 20,125,942</b>	<b>\$ 21,995,050</b>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	\$ 40,636	\$ 20,197	\$ 419,336	\$ 480,169
Accrued liabilities	1,290	1,132	316,297	318,719
Accrued interest	-	-	1,237,327	1,237,327
Customer deposits	30,123	82,592	-	112,715
CCIA payable	-	28,725	-	28,725
Current portion of bonds payable	-	-	1,155,000	1,155,000
Total current liabilities	72,049	132,646	3,127,960	3,332,655
Noncurrent liabilities:				
Bonds payable	-	-	18,660,000	18,660,000
Total noncurrent liabilities	-	-	18,660,000	18,660,000
Other Liabilities:				
Deferred revenue	15,214	18,742	-	33,956
Total Liabilities	87,263	151,388	21,787,960	22,026,611
<b>Net Assets</b>				
Invested in capital assets, net of related debt	722,889	1,442,109	(8,339,853)	(6,174,855)
Restricted for:				
Debt service	-	-	681	681
Renewal and replacement	-	-	343,611	343,611
Restructuring	-	-	3,583,320	3,583,320
Unrestricted	251,420	(785,960)	2,750,223	2,215,683
<b>Total Net Assets</b>	<b>\$ 974,309</b>	<b>\$ 656,149</b>	<b>\$ (1,662,018)</b>	<b>\$ (31,560)</b>

The accompanying notes are an integral part of the financial statements.

**TWIN CITY POWER**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Enterprise Funds**  
**Year Ended June 30, 2005**

	Distribution		Generation	Combined
	Hildale	Colorado	Hildale	Total
	City	City	City	(Memorandum Only)
<b>Operating Revenues</b>				
Charges for services	\$ 1,251,621	\$ 1,878,171	\$ -	\$ 3,129,792
Wholesale power sales - HC, CC	-	-	122,917	122,917
Wholesale gas sales	-	-	2,159,166	2,159,166
Penalties and interest	22,704	37,798	-	60,502
Other revenues	90	2,761	4,951	7,802
<b>Total operating revenues</b>	<b>1,274,415</b>	<b>1,918,730</b>	<b>2,287,034</b>	<b>5,480,179</b>
<b>Operating expenses</b>				
Contract wages & benefits	50,330	74,556	181,706	306,592
Office expenses & travel	3,749	9,410	21,112	34,271
Repairs & maintenance	42,035	42,680	225,223	309,938
Rent	5,468	7,201	8,733	21,402
Insurance	7,667	28,952	110,569	147,188
Legal & professional fees	25,191	37,795	229,820	292,806
Miscellaneous	3,210	4,037	10,992	18,239
Purchased power	49,155	73,762	1,868,563	1,991,480
Natural gas purchases and transportation	-	-	819,480	819,480
Fuel and oil	-	2,374	2,092	4,466
Water treatment	-	-	18,679	18,679
Depreciation / amortization	52,766	88,071	679,803	820,640
<b>Total operating expenses</b>	<b>239,571</b>	<b>368,838</b>	<b>4,176,772</b>	<b>4,785,181</b>
<b>Operating income/(loss)</b>	<b>1,034,844</b>	<b>1,549,892</b>	<b>(1,889,738)</b>	<b>694,998</b>
<b>Non-operating revenues/(expenses)</b>				
Interest income	9,538	8,907	32,244	50,689
Contributed capital	65,524	54,776	-	120,300
Interest expense and fiscal charges	-	-	(1,584,806)	(1,584,806)
Gain on sale of gas contract	-	-	2,950,000	2,950,000
<b>Total non-operating revenue (expense)</b>	<b>75,062</b>	<b>63,683</b>	<b>1,397,438</b>	<b>1,536,183</b>
<b>Change in net assets</b>	<b>1,109,906</b>	<b>1,613,575</b>	<b>(492,300)</b>	<b>2,231,181</b>
<b>Total net assets, beginning of year</b>	<b>(135,597)</b>	<b>(957,426)</b>	<b>(1,169,718)</b>	<b>(2,262,741)</b>
<b>Total net assets, end of year</b>	<b>\$ 974,309</b>	<b>\$ 656,149</b>	<b>\$ (1,662,018)</b>	<b>\$ (31,560)</b>

The accompanying notes are an integral part of the financial statements.



**TWIN CITY POWER**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**Year Ended June 30, 2005**

	Distribution		Generation	Combined
	Hildale	Colorado	Hildale	Total
	City	City	City	(Memorandum Only)
<b>Cash flows from operating activities:</b>				
Cash received from customers, service fees	\$ 1,225,952	\$ 1,915,932	\$ 292,226	\$ 3,434,110
Cash receipts from quasi-external operating transactions	-	-	2,832,152	2,832,152
Cash received from customers, other	22,794	40,559	2,164,117	2,227,470
Cash paid to suppliers	(173,116)	(148,063)	(3,358,129)	(3,679,308)
Cash payments for quasi-external operating transactions	(1,113,340)	(1,718,814)	-	(2,832,154)
Cash paid to employees	(53,889)	(86,667)	739,837	599,281
Cash flows from operating activities	(91,599)	2,947	2,670,203	2,581,551
<b>Cash flows from capital and related financing activities:</b>				
Purchase of fixed assets	(1,379)	(66,630)	(27,911)	(95,920)
Proceeds on sale of fixed assets	17,764	-	-	17,764
Sale of gas contract	-	-	2,950,000	2,950,000
Interest paid	-	-	(1,548,508)	(1,548,508)
Capital contributions	65,524	54,776	-	120,300
Cash flows from capital and related financing activities	81,909	(11,854)	1,373,581	1,443,636
<b>Cash flows from investing and other activities:</b>				
Interest on investments	9,538	8,907	32,244	50,689
Cash flows from investing and other activities	9,538	8,907	32,244	50,689
<b>Net increase (decrease) in cash and cash equivalents</b>	(152)	-	4,076,028	4,075,876
Cash and cash equivalents, beginning of year	152	-	2,276,522	2,276,674
<b>Cash and cash equivalents, end of year</b>	\$ -	\$ -	\$ 6,352,550	\$ 6,352,550
<b>Reconciliation of operating income to cash flows from operating activities:</b>				
Net operating income/(loss)	\$ 1,034,844	\$ 1,549,892	\$ (1,889,738)	\$ 694,998
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation/amortization	52,766	88,071	679,803	820,640
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	32,909	37,761	292,226	362,896
(Increase)/Decrease in due from other governments	(58,578)	-	-	(58,578)
(Increase)/Decrease in inventory	(6,783)	(22,674)	-	(29,457)
(Increase)/Decrease in prepaids	(7,937)	-	9,882	1,945
Increase/(Decrease) in accounts payable	(71,076)	7,060	(52,748)	(116,764)
Increase/(Decrease) in accrued liabilities	(3,559)	(12,111)	921,543	905,873
Increase/(Decrease) due to / from other funds	(1,064,185)	(1,645,052)	2,709,235	(2)
Cash flows from operating activities	\$ (91,599)	\$ 2,947	\$ 2,670,203	\$ 2,581,551
<b>Supplementary Schedule of Non-Cash Investing and Financing Activities:</b>				
Amortization of bond discounts to interest expense	\$ -	\$ -	\$ (36,298)	\$ (36,298)

Then accompanying notes are an integral part of the financial statements

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies**

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**General**

Twin City Power Joint Management, Operation and Maintenance Agreement (Twin City Power) was formed on April 29, 1994 by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Electric Distribution Systems Management Operation and Maintenance Agreement."

Each City has acquired its own electric system which is independently owned and financed and reflected in the funds of Twin City Power. Each City's ownership percentage in Twin City Power is based upon their original investments in their City's system and subsequent specific contributions. Common operating revenues and expenditures are allocated on the basis of the proportion that the annual energy sales to each City's electric customers bears to the total annual energy sales.

The "Power Board" consists of seven Members, three appointed by the Mayor and Council of Hildale City and four Members appointed by the Mayor and Council of Colorado City. Each Member is entitled to one vote. Budgeting and financing is done by the "Power Board" and merely ratified by each City's Council.

**Reporting Entity**

In evaluating how to define Twin City Power, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether Twin City Power is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Power Departments.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies (Continued)**

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**Basis of Presentation and Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Department's only fund is an enterprise fund.

Fund financial statements report detailed information about the Hildale City and Colorado City Power Departments. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only funds of the Departments are enterprise funds. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The Department applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Twin City Power has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for electric services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

**Budgets and Budgetary Accounting**

Annual budgets are prepared and adopted by each of the City Councils on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The Twin City Power Board adopts or ratifies by resolution, the budgets passed by each City Council.

Budgets for the proprietary fund types are prepared using the accrual basis of accounting, except that depreciation was not budgeted.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies (Continued)**

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**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by Twin City Power.

**Accounts Receivable**

Accounts receivable consists mainly of amounts due for electrical services provided. Twin City Power maintains customer deposits to cover anticipated uncollectible accounts. An allowance for uncollectible accounts has also been accrued.

**Inventories**

Inventories in the electric fund consist principally of materials used in the repair and maintenance of the systems and are valued at cost and accounted for on a first-in, first-out basis.

**Wages and Salaries**

All employees are employed by Colorado City. Twin City Power reimburses Colorado City for wages, payroll taxes and benefits.

**Taxes**

Property taxes are collected by each city's respective county and remitted to the cities (see each city's respective financial statement, footnotes for property tax calendars and procedures). The cities then remit taxes collected for debt service to their respective electric utility funds.

**Cash and Cash Equivalents**

Twin City Power cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies (Continued)**

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**Net Assets**

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors or grantors.

**Depreciable Fixed Assets**

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Generation System	25 -30 years
Distribution System	25 -30 years
Gas Lines	22 years
Vehicles & Equipment	5-10 years
Office Furniture & Equipment	5-7 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in net income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Material interest expense is capitalized net of interest earnings on temporary investment of tax-exempt funds in accordance with Financial Accounting Standards number 62.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 2.      Deposits and Investments**

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The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

Twin City Power follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Twin City Power funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Twin City Power participates in Hildale City's Central Treasury. The City's Central Treasury consists of the following at fiscal year end:

Far West Bank	\$ 182,387
State Treasurer's Investment Pool	697,941
U.S. Bank	1,088,288
Wells Fargo Bank	927,308
Zions First National Bank	213,221
Less amounts transferred to Hildale City and other Joint Utilities	(684,207)
	<u>\$ 2,424,938</u>

Twin City Power's equity in Hildale City's Central Treasury and cash held directly by Twin City Power By fund at fiscal year end is as follows:

Cash By Fund	<u>Hildale City</u>	<u>Colorado City</u>	<u>Hildale Generation</u>	<u>Total</u>
Equity in Central Treasury	\$ -	\$ -	\$ 2,424,938	\$ 2,424,938
Bond Escrow Account	-	-	3,583,319	3,583,319
Zions First National Bank	-	-	344,293	344,293
Total Cash and Investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,352,550</u>	<u>\$ 6,352,550</u>

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 2.      Deposits and Investments (Continued)**

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**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2005, \$2,197,056 of the Hildale City's central treasury's bank balance of \$2,597,057 was exposed to custodial credit risk because it was uninsured and collateralized.

Twin City Power does not have a formal policy for custodial credit risk. The bank balances of deposits held by Twin City Power directly at June 30, 2005 totals \$3,927,612. Of these bank balances, \$3,826,930 was exposed to custodial credit risk because it was uninsured and collateralized.

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investment for Twin City Power and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize Twin City Power to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 2.      Deposits and Investments (Continued)**

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The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 697,941	\$ 697,941	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 697,941</u>	<u>\$ 697,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Twin City Power's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Twin City Power's policy for reducing exposure to credit risk is to comply with the State's Money Management Act.



**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 2. Deposits and Investments (Continued)**

At June 30, 2005 Hildale City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 697,941	\$ -	\$ -	\$ -	\$ 697,941
Total Fair Value	<u>\$ 697,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697,941</u>

**NOTE 3. Capital Assets**

The following table summarizes the changes to capital assets during the year ended June 30, 2005:

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
<b>Hildale City:</b>				
Capital assets not being depreciated:				
Construction in Progress	\$ 159,432		\$ (113,205)	\$ 46,227
Total capital assets not being depreciated	<u>159,432</u>	<u>-</u>	<u>(113,205)</u>	<u>46,227</u>
Capital assets being depreciated:				
Machinery and equipment	49,165	1,378	-	50,543
Automobile and trucks	16,798	-	-	16,798
Improvements other than buildings	<u>904,324</u>	<u>95,443</u>	<u>-</u>	<u>999,767</u>
Total capital assets being depreciated	<u>970,287</u>	<u>96,821</u>	<u>-</u>	<u>1,067,108</u>
Less accumulated depreciation for:				
Machinery and equipment	(9,009)	(11,786)	-	(20,795)
Automobile and trucks	(9,454)	(3,360)	-	(12,814)
Improvements other than buildings	<u>(319,217)</u>	<u>(37,620)</u>	<u>-</u>	<u>(356,837)</u>
Total accumulated depreciation	<u>(337,680)</u>	<u>(52,766)</u>	<u>-</u>	<u>(390,446)</u>
Total capital assets, being depreciated, net	<u>632,607</u>	<u>44,055</u>	<u>-</u>	<u>676,662</u>
Hildale City activities capital assets, net	<u>\$ 792,039</u>	<u>\$ 44,055</u>	<u>\$ (113,205)</u>	<u>\$ 722,889</u>

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 3. Capital Assets (Continued)**

<b>Colorado City:</b>	<b>Balance 6/30/2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2005</b>
Capital assets not being depreciated:				
Construction in Progress	\$ 253,031		\$ (183,691)	\$ 69,340
Total capital assets not being depreciated	253,031	-	(183,691)	69,340
Capital assets being depreciated:				
Machinery and equipment	26,335	2,068	-	28,403
Automobile and trucks	104,993	-	-	104,993
Improvements other than buildings	1,880,024	248,253	-	2,128,277
Total capital assets being depreciated	2,011,352	250,321	-	2,261,673
Less accumulated depreciation for:				
Machinery and equipment	(13,520)	(4,281)	-	(17,801)
Automobile and trucks	(88,199)	(4,559)	-	(92,758)
Improvements other than buildings	(699,114)	(79,231)	-	(778,345)
Total accumulated depreciation	(800,833)	(88,071)	-	(888,904)
Total capital assets, being depreciated, net	1,210,519	162,250	-	1,372,769
Colorado City activities capital assets, net	\$ 1,463,550	\$ 162,250	\$ (183,691)	\$ 1,442,109

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 3. Capital Assets (Continued)**

	<u>Balance</u> <u>6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2005</u>
<b>Hildale Generation:</b>				
Capital assets not being depreciated:				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Machinery and Equipment	27,629	2,096	-	29,725
Generation Plant	3,014,747	-	-	3,014,747
Generation Sets	7,826,650	-	-	7,826,650
Transmission Lines	2,747,424	25,814	-	2,773,238
Gas Lines	3,304,009	-	-	3,304,009
Total capital assets being depreciated	16,920,459	27,910	-	16,948,369
Less accumulated depreciation for:				
Machinery and Equipment	(10,166)	(4,500)	-	(14,666)
Generation Plant	(905,740)	(104,319)	-	(1,010,059)
Generation Sets	(2,118,515)	(313,066)	-	(2,431,581)
Transmission Lines	(671,568)	(92,536)	-	(764,104)
Gas Lines	(1,102,630)	(150,182)	-	(1,252,812)
Total accumulated depreciation	(4,808,619)	(664,603)	-	(5,473,222)
Total capital assets, being depreciated, net	12,111,840	(636,693)	-	11,475,147
Hildale Generation capital assets, net	\$12,111,840	\$(636,693)	\$ -	\$ 11,475,147

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 4. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
<b>Hildale Generation:</b>					
Electric Revenue Bonds					
Series 1997	\$ 1,310,000	\$ -	\$ -	\$ 1,310,000	\$ 70,000
Electric Revenue Bonds					
Series 1995	<u>18,505,000</u>	<u>-</u>	<u>-</u>	<u>18,505,000</u>	<u>1,085,000</u>
Total Long-Term Debt	<u>\$ 19,815,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,815,000</u>	<u>\$ 1,155,000</u>

Long-term debt consists of the following at June 30, 2005:

	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Electric Revenue Bonds, Series 1997, due in annual principal installments ranging from \$15,000 to \$190,000, bearing interest at 7.75%, payable semi-annually, maturing September 1, 2025.	\$ 1,310,000	\$ -	\$ 1,310,000
Electric Revenue Bonds, Series 1995, due in annual principal installments ranging from \$210,000 to \$1,805,000, bearing interest at 7.00 - 8.00%, payable semi-annually, maturing September 1, 2025.	<u>18,505,000</u>	<u>-</u>	<u>18,505,000</u>
	19,815,000	-	19,815,000
Less Current Portion	<u>(1,155,000)</u>	<u>-</u>	<u>(1,155,000)</u>
Total Long-Term Debt	<u>\$ 18,660,000</u>	<u>\$ -</u>	<u>\$ 18,660,000</u>

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 4. Long-Term Debt (Continued)**

Debt service requirements to maturity are as follows:

Year ended June 30,	Hildale City		Total	
	Principal	Interest	Principal	Interest
2006	\$ 1,155,000	\$ 1,569,157	\$ 1,155,000	\$ 1,569,157
2007	445,000	1,443,691	445,000	1,443,691
2008	430,000	1,409,596	430,000	1,409,596
2009	470,000	1,373,677	470,000	1,373,677
2010	515,000	1,335,158	515,000	1,335,158
2011 - 2015	3,270,000	5,904,872	3,270,000	5,904,872
2016 - 2020	4,805,000	4,393,476	4,805,000	4,393,476
2021 - 2025	6,750,000	2,140,015	6,750,000	2,140,015
2026 - 2030	1,975,000	77,758	1,975,000	77,758
Total	<u>\$ 19,815,000</u>	<u>\$ 19,647,400</u>	<u>\$ 19,815,000</u>	<u>\$ 19,647,400</u>

**NOTE 5. Reserved Retained Earnings - Bond Reserves - Restructuring**

Reservations are used to indicate that a portion of the fund balance is not available for appropriation or expenditure, or is legally segregated for a specific future use. At June 30, 2005, Twin City Power's debt related reserves and restructuring related reserves are as follows:

	Required <u>Reserves</u>	Restricted Cash <u>Balance</u>	Equity <u>Reserves</u>
Hildale City Generation Fund – Bond Reserves	\$ 2,759,255	\$ 344,292	\$ -
Hildale City Generation Fund – Restructuring Reserves*	\$ 3,583,320	\$ 3,583,320	\$ -

\*Effective April 1, 2005, Twin City Power sold its gas contract to El Paso Corporation (See note 12). As part of the agreement, the Bondholders and Management of Twin City Power agreed to transfer, into an escrow account, the proceeds from the sale of the contract as well as the net proceeds from a portion of the natural gas sales on the open market. As a result, \$3,577,660 was transferred to an escrow account and began to accrue interest. The funds will remain in the escrow account, earning interest, until the Board Members and the Bond Holders come to a consensus on restructuring efforts.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 6.      Board of Directors, Mayors and Councils**

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The Board of Directors consists of three members appointed by Hildale City and four members appointed by the Town of Colorado City.

The Hildale City council consists of a mayor and five council members. The Colorado City council consists of a mayor and six council members.

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**NOTE 7.      Contributed Materials and Services**

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Twin City Power records the value of donated goods or services when there is an objective basis available to measure their value. Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services (labor) as no objective basis is available to measure the value of such services. Nevertheless, several volunteers donated significant amounts of their time towards acquiring the electrical distribution systems and forming Twin City Power.

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**NOTE 8.      Power Sales Contracts - Concentration of Risk**

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Twin City Power entered into a firm power sales agreement with the City of St. George, wherein Twin City Power agreed to sell firm power and the associated energy to the City of St. George. The agreement was effective July 1, 1994 through June 30, 2024. However, this power sales agreement was terminated effective July 15, 2003. Actual power sales to St. George City under contract were terminated in December of 2002. Total sales to St. George City for fiscal year 2002 were \$2,847,439 and \$1,131,000 for fiscal year 2003. During fiscal year 2004, Twin City Power generated power for St. George City during July and August to meet peak demands. Wholesale power sales to St. George City for fiscal year 2004 amounted to \$ 209,447 as shown on the Statement of Revenues, Expenses and Changes in Net Assets. Twin City Power did not sale power to St. George City in fiscal year 2005.

Hildale City and Colorado City entered into a power sales contract on December 15, 1995, wherein Colorado City agrees to purchase energy generated by Hildale City. The charge to Colorado City for capacity and energy is Colorado City's pro rata share of the operation and maintenance expenses and capital costs during the period, after the application of all other revenues. During the current fiscal year, Colorado City was charged \$73,762 (60.01%) and the Hildale City Distribution fund was charged \$49,155 (39.99%). Amounts due to the Hildale City generation fund by the Colorado City and Hildale City distribution funds are \$1,087,926 and \$54,746 respectively.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 9.      Bond Covenants – Disclosures – Defaults**

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The City's Power fund **net revenues for the current fiscal year failed to meet the requirement** set forth in Section 6.13(b) of the Series 1995 and Series 1997 bond resolutions/covenants.

The net revenue requirement for the current fiscal year is \$3,405,196 which is 1.25 times the aggregate debt service for the forthcoming fiscal year. The actual net revenues were \$2,909,977 which yields a **shortfall of \$495,219**.

As discussed in Note 8 and Note 10, as of July 15, 2003, Twin City Power's **firm power sales agreement with St. George City was terminated**. The cancellation of this contract is an event of default under the bond resolutions.

During fiscal year 2005, Twin City Power **failed to make the required principal payments on two of its outstanding Electric Revenue Bonds, Series 1995 and Series 1997** shown in Note 4. Total principal past due as of June 30, 2005 was \$735,000. **Twin City Power has not made any principal payments on the bonds listed above since fiscal year 2003 through the issuance date of the financial statements**. Non-payment constitutes default under both bond resolutions.

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**NOTE 10.      Natural Gas Price Issues**

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Natural gas costs have risen substantially in recent years. Expectations of the generation plant assumed natural gas costs at under \$2.00 per decatherm. Natural gas pricing has been as high as \$7.00 per decatherm and higher throughout some of the winter months for fiscal year 2005. Although the City has acquired hedge positions in the Rocky Mountain gas fields, on March 31, 2002, one half of the hedge positions expired. Thus, the City is currently purchasing gas on a month-to-month basis for one half of the required purchases.

As a result of high gas costs, the City has not been able to continue generating power under the St. George City contract. As discussed in Note 8, Twin City Power's contract with St. George City was irrevocably cancelled.

Rolls Royce terminated its long-term maintenance agreement with the generation plant in the prior year. They terminated the agreement due to generation shutdowns and unacceptable natural gas prices. Currently, any maintenance and parts for the generation plant's turbine generators are the sole responsibility and cost of Twin City Power.

**TWIN CITY POWER**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 11.     Risk Management**

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**Risk Management**

Twin City Power is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. Colorado City and Hildale City maintain insurance for Twin City Power's general liability, auto liability, employee dishonesty and worker's compensation through Utah Local Government Trust, Arizona Municipal Risk Retention Pool, Worker's Compensation Fund of Utah, and the Arizona State Worker's Compensation Fund. Insurance coverage for power plant property and business interruption are maintained through Liberty Surplus Insurance Company.

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**NOTE 12.     Sale of Gas Contract**

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On December 28, 1995, Twin City Power entered into an agreement with Conoco, Inc. (subsequently purchased by CIG Merchant Company, Inc.) to purchase natural gas at a fixed rate. This contract, having significant value in the 2005 winter gas market, was sold to El Paso Corporation effective April 1, 2005 for \$2,950,000. The gain resulting from the sale of the contract is reported in the non-operating portion of the Statement of Revenues, Expenses and Changes in Net Assets.

Upon sale of the contract, the proceeds were transferred to an escrow account being held for future restructuring purposes by the Management of Twin City Power. In addition to the proceeds from the sale, a portion of the natural gas sales made by Twin City Power to CIMA Energy, LTD. were also transferred to the escrow account(See note 5). The Series 1995 and 1997 Bondholders have consented to this process and the two parties are currently in deliberations concerning the future of the Hildale City Power Generation Fund.



**SUPPLEMENTARY SCHEDULES**

**TWIN CITY POWER**  
**Supplementary Information on Bond Requirements**  
**June 30, 2005**

The Series 1995 and 1997 Electric System Bond Resolutions set forth certain covenants and restrictions. The City is not in compliance with all covenants and restrictions for the Electric System Bond Resolution requirements see Note 9.

Additional disclosures required by the Resolutions are:

	<u>Total Billings 2004-2005</u>	<u>Average Per Month</u>	<u>Average Per Customer</u>	<u>Total Customers</u>
CCA Residential	\$ 1,448,214.92	\$120,684.58	\$ 2,501.23	579
CCA Commercial	366,499.28	30,541.61	3,593.13	102
CCA Public	<u>361,586.07</u>	<u>30,132.17</u>	<u>32,871.46</u>	<u>11</u>
Total CCA Billings	<u>\$ 2,176,300.27</u>	<u>\$181,358.36</u>	<u>\$ 3,144.94</u>	<u>692</u>
HCU Residential	\$ 808,224.19	\$ 67,352.02	\$ 3,132.65	258
HCU Commercial	537,904.36	44,825.36	7,576.12	71
HCU Public	<u>101,586.64</u>	<u>8,465.55</u>	<u>12,698.33</u>	<u>8</u>
Total HCU Billings	<u>\$ 1,447,715.19</u>	<u>\$120,642.93</u>	<u>\$ 4,295.89</u>	<u>337</u>

Insurance coverage in effect at June 30, 2005:

<u>Type</u>	<u>Policy Number</u>	<u>Effective</u>	<u>Expires</u>	<u>Limits</u>
<b>Coverage with Utah Local Governments Trust:</b>				
General Liability	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Property	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Automobile physical damage	11720-GL351-2004	12/15/2004	Continuous	\$ 5,000,000
Uninsured motorist	11720-GL351-2004	12/15/2004	Continuous	\$ 65,000
<b>Coverage with Liberty Surplus Insurance Corporation:</b>				
Power Plant Property	5D117585004	4/1/2005	4/1/2006	\$ 10,874,200
Business Interruption	5D117585004	4/1/2005	4/1/2006	\$ 4,669,048

**FEDERAL AND STATE REPORTS**



**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.L.C.

**CPA'S & ADVISORS**

**Independent Auditors' Report on Compliance with  
Laws and Regulations and on  
Internal Control over Financial Reporting  
Based on an Audit of Basic  
Financial Statements Performed in Accordance  
with *Government Auditing Standards***

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Twin City Power

We have audited the basic financial statements of Twin City Power Joint Management, Operation and Maintenance Agreement (Twin City Power) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Twin City Power's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Twin City Power in a separate letter dated September 15, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Twin City Power's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Twin City Power in a separate letter dated September 15, 2005.

This report is intended solely for the information and use of the mayors, councils, power board, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.

August 31, 2005



**KEMP BURDICK**

**KEMP BURDICK HINTON & HALL L.C.**

**CPA'S & ADVISORS**

## Findings and Recommendations

Executive Director and  
Members of the Board of Trustees of  
Twin City Power

MEMBERS:  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

During our audit of the funds of Twin City Power Joint Management, Operation & Maintenance Agreement (Twin City Power) for fiscal year ended June 30, 2005, we noted that management has made improvements to the accounting and budgeting system and we wish to commend management and the board on their achievements. However, we noted a few areas that need corrective action in order to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen Twin City Power's accounting system and control over its assets.

Since Twin City Power's accounting system is fully integrated with Hildale City's accounting system, we have included all of our findings and recommendations in the Hildale City management letter which will be made available to each participating board.

It has been a pleasure to be of service to Twin City Power this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
September 15, 2005

**WATER DEPARTMENTS OF  
HILDALE/COLORADO CITY  
(TWIN CITY WATER JOINT MANAGEMENT, OPERATIONS & MAINTENANCE AGREEMENT)  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005  
WITH REPORT OF  
CERTIFIED PUBLIC ACCOUNTANTS**



**KEMP BURDICK**  
**KEMP BURDICK HINTON & HALL L.C.**  
**CPA'S & ADVISORS**

## **Table of Contents**

### **FINANCIAL SECTION**

Report of Independent Certified Public Accountants' .....	1
Management's Discussion and Analysis.....	2
Basic Financial Statements:	
Statement of Net Assets .....	7
Statement of Revenues, Expenses and Changes in Net Assets .....	8
Statement of Cash Flows .....	9
Notes to Financial Statements.....	10

### **OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

Report on Compliance with Federal Laws and Regulations and Internal Control.....	23
Findings and Recommendations .....	25



**KEMPBURDICK**

KEMP BURDICK HINTON &amp; HALL L.C.

**CPA'S & ADVISORS**

**Independent Auditors' Report on the  
Basic Financial Statements**

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Water Departments of Hildale/Colorado City

We have audited the accompanying financial statements for the Water Departments of Hildale, Utah and Colorado City, Arizona as of June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Departments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Departments as of June 30, 2005 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2005 on our consideration of the Water Departments internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
August 31, 2005

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## **WATER DEPARTMENTS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Water Departments, we offer readers of the Departments' financial statements this narrative overview and analysis of the financial activities of the Departments for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

#### **FINANCIAL HIGHLIGHTS**

- Total assets exceed total liabilities (net assets) by \$981,118 at the close of the fiscal year.
- Total net assets increased by \$51,774.
- Total operating revenues were \$563,763.
- Total operating expenses were \$525,736.
- At the end of the current fiscal year, unreserved net assets for the Departments were \$341,285.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements of the Water Departments' (a business-type activity) consist of the following:

**Statement of Net Assets** – Presents information on all of the Water Departments' assets and liabilities, with the difference reported as "Total Net Assets." The total net assets, when viewed over time, will track the Departments' financial position.

**Statement of Revenues, Expense, and Changes in Net Assets** - Presents information regarding the change in the Departments' net assets during the year. The Departments use the accrual basis of accounting in which revenues and expenditures are recognized when earned and incurred. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

**Statement of Cash Flows** – Presents net cash flows for operating activities, investing activities, and capital and related financing activities. It also includes the net cash increase for the period, cash at the beginning of the period and cash at the end of the period.

#### **FINANCIAL ANALYSIS**

Condensed financial information derived from the basic financial statements is presented below followed by a brief narrative on selected items.

**WATER DEPARTMENTS**  
**Statement of Net Assets (Condensed)**

	<u>6/30/2004</u>	<u>6/30/2005</u>
Current Assets	\$ 333,420	\$ 398,524
Noncurrent Assets	<u>859,557</u>	<u>810,638</u>
Total Assets	<u>1,192,977</u>	<u>1,209,162</u>
Current Liabilities	92,113	67,417
Long-Term Liabilities	<u>171,520</u>	<u>160,627</u>
Total Liabilities	<u>263,633</u>	<u>228,044</u>
Total Net Assets	<u>\$ 929,344</u>	<u>\$ 981,118</u>

**Statement of Revenues, Expenses and Changes in Net Assets (Condensed)**

	<u>6/30/2004</u>	<u>6/30/2005</u>
Total Operating Revenues	\$ 590,520	\$ 563,763
Total Operating Expenses	<u>556,060</u>	<u>525,736</u>
Operating Income/(Loss)	34,460	38,027
Non-Operating Revenues/(Expenses)	<u>19,407</u>	<u>13,747</u>
Change in Net Assets	<u>\$ 53,867</u>	<u>\$ 51,774</u>

Operating expenses this year were \$525,736 as shown above. Operating revenues were \$563,763. Operating income as percentage of operating revenues was 6.74%.

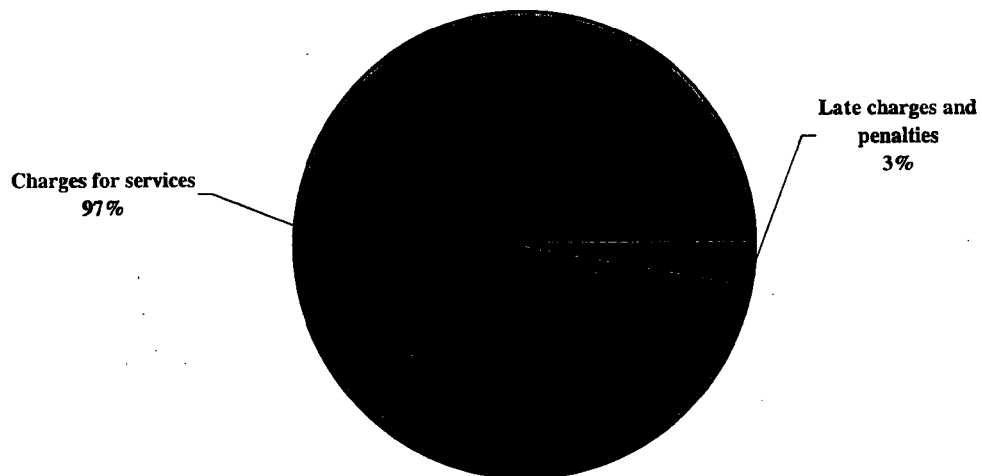
The Water Departments' provide water services to customers. The Departments' net cost (total cost less revenues generated by the activities) is presented in the statement of revenues, expenses and changes in net assets. During fiscal year 2005, Net Assets increased by \$51,774.

A comparison of the operating revenues and operating expenses for the current and prior year is presented below:

**WATER DEPARTMENTS' REVENUE BY SOURCE (Combined)**  
**Year ended June 30, 2004 and 2005**

	<u>6/30/2004</u>	<u>6/30/2005</u>
REVENUES:		
Charges for services	\$ 570,961	\$ 541,552
Late charges and penalties	<u>19,559</u>	<u>16,155</u>
Total Revenues	<u>\$ 590,520</u>	<u>\$ 557,707</u>

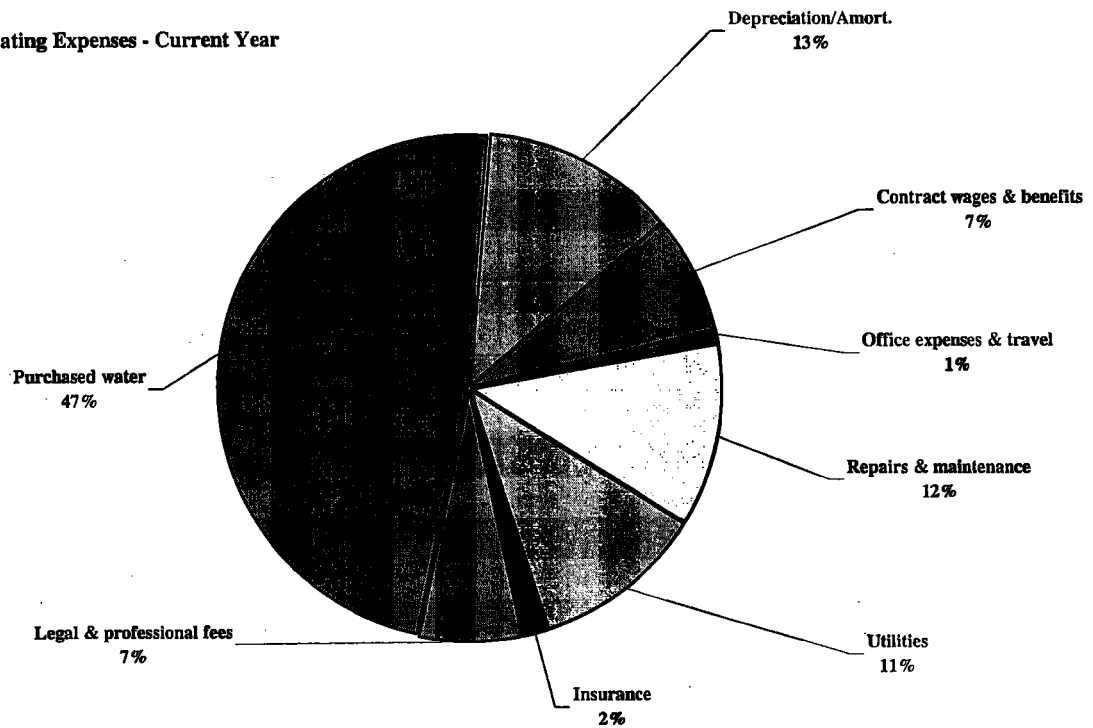
**Revenues by Source - Current Year**



**WATER DEPARTMENTS' OPERATING EXPENSES (Combined)**  
**Year ended June 30, 2004 and 2005**

	<u>6/30/2004</u>	<u>6/30/2005</u>
<b>OPERATING EXPENSES:</b>		
Contract wages & benefits	\$ 28,868	\$ 39,337
Office expenses & travel	4,066	4,773
Repairs & maintenance	72,675	61,423
Utilities	59,254	58,368
Insurance	11,168	8,756
Legal & professional fees	42,679	35,309
Purchased water	271,911	251,612
Depreciation/Amort.	65,439	66,158
	<u>556,060</u>	<u>525,736</u>
<b>Total Operating Expenses</b>	<b>\$ 556,060</b>	<b>\$ 525,736</b>

**Operating Expenses - Current Year**



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The capital assets of the Departments are those assets that are used in performance of Departments' functions including vehicles, equipment, buildings, wells and water system. At the end of fiscal year 2005, net capital assets of the Departments' activities totaled \$810,638.

### **Debt**

At year-end, the Departments' had \$170,806 in long-term debt. During the current fiscal year, the Departments' total debt decreased by \$17,341. (See the notes to the financial statements for detailed descriptions.)

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the Departments budget for fiscal year 2005/2006, the Departments' Board and management were cautious as to the growth of revenues and expenditures. Overall operating expenditures were budgeted so as to contain costs at approximately the same level as fiscal year 2004/2005. There are no large capital projects anticipated for FY 2005/2006.

## **CONTACTING THE DEPARTMENTS' FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Departments' finances for all those with an interest in the government's finances and to show the Departments' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeremiah Barlow, Hildale City Treasurer, P.O. Box 840490, Hildale, Utah 84784.

**WATER DEPARTMENTS**  
**Statement of Net Assets**  
**Enterprise Funds**  
**June 30, 2005**

	Hildale City	Colorado City	Totals (Memorandum only)	
			June 30, 2005	June 30, 2004
<b>Assets</b>				
Current Assets:				
Cash	\$ 124,639	\$ 174,653	\$ 299,292	\$ 208,904
Receivables	32,953	66,279	99,232	124,516
Total Current Assets	<u>\$ 157,592</u>	<u>\$ 240,932</u>	<u>\$ 398,524</u>	<u>\$ 333,420</u>
Non current Assets:				
Property and equipment	236,253	1,003,236	1,239,489	1,222,250
Accumulated depreciation	(93,684)	(335,167)	(428,851)	(362,693)
Total Noncurrent Assets	<u>142,569</u>	<u>668,069</u>	<u>810,638</u>	<u>859,557</u>
<b>Total Assets</b>	<u>\$ 300,161</u>	<u>\$ 909,001</u>	<u>\$ 1,209,162</u>	<u>\$ 1,192,977</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	\$ 18,692	\$ 37,902	\$ 56,594	\$ 75,486
Customer deposits	540	105	645	-
Capital lease payable - current portion	-	-	-	6,943
Notes payable - current portion	3,562	6,616	10,178	9,684
Total Current Liabilities	<u>22,794</u>	<u>44,623</u>	<u>67,417</u>	<u>92,113</u>
Non current Liabilities:				
Capital lease payable-net of current portion	-	-	-	-
Notes payable-net of current portion	56,220	104,407	160,627	171,520
Total Non current Liabilities	<u>56,220</u>	<u>104,407</u>	<u>160,627</u>	<u>171,520</u>
<b>Total Liabilities</b>	<u>79,014</u>	<u>149,030</u>	<u>228,044</u>	<u>263,633</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	82,787	557,046	639,833	671,410
Unreserved	<u>138,360</u>	<u>202,925</u>	<u>341,285</u>	<u>257,934</u>
<b>Total net assets</b>	<u>\$ 221,147</u>	<u>\$ 759,971</u>	<u>\$ 981,118</u>	<u>\$ 929,344</u>

The accompanying notes are an integral part of the financial statements.

**WATER DEPARTMENTS**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Enterprise Funds**  
**For the Year Ended June 30, 2005**

	Hildale City	Colorado City	Totals (Memorandum only)	
			June 30, 2005	June 30, 2004
<b>Operating Revenues</b>				
Charges for services	\$ 185,126	\$ 356,426	\$ 541,552	\$ 570,961
Late charges and penalties	4,850	11,305	16,155	19,559
<b>Total Operating Revenues</b>	<b>192,617</b>	<b>371,146</b>	<b>563,763</b>	<b>590,520</b>
<b>Operating Expenses</b>				
Contract wages & benefits	12,952	26,385	39,337	28,868
Office expenses & travel	2,107	2,666	4,773	4,066
Repairs & maintenance	20,852	40,571	61,423	72,675
Utilities	19,958	38,410	58,368	59,254
Insurance	1,304	7,452	8,756	11,168
Legal & professional fees	12,005	23,304	35,309	42,679
Purchased water	85,548	166,064	251,612	271,911
Depreciation/amortization	14,925	51,233	66,158	65,439
<b>Total Operating Expenses</b>	<b>169,651</b>	<b>356,085</b>	<b>525,736</b>	<b>556,060</b>
<b>Operating Income</b>	<b>22,966</b>	<b>15,061</b>	<b>38,027</b>	<b>34,460</b>
<b>Non-Operating Income/(Expenses)</b>				
Interest income	1,412	3,692	5,104	3,100
Contributed capital	5,861	11,378	17,239	28,934
Interest expense and fiscal charges	(3,007)	(5,589)	(8,596)	(10,521)
Gain/(Loss) on Sale of Assets	-	-	-	(2,106)
<b>Total Non-Operating Income (Loss)</b>	<b>4,266</b>	<b>9,481</b>	<b>13,747</b>	<b>19,407</b>
<b>Change in net assets</b>	<b>27,232</b>	<b>24,542</b>	<b>51,774</b>	<b>53,867</b>
<b>Total net assets, beginning of year</b>	<b>193,915</b>	<b>735,429</b>	<b>929,344</b>	<b>875,477</b>
<b>Total net assets, end of year</b>	<b>\$ 221,147</b>	<b>\$ 759,971</b>	<b>\$ 981,118</b>	<b>\$ 929,344</b>

The accompanying notes are an integral part of the financial statements.



**WATER DEPARTMENTS**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended June 30, 2005**

	Hildale City	Colorado City	Totals (Memorandum only)	
			June 30, 2005	June 30, 2004
<b>Cash flows from operating activities</b>				
Cash received from customers, service fees	\$ 195,438	\$ 371,398	\$ 566,836	\$ 555,948
Cash received from customers, other	8,031	14,825	22,856	19,559
Cash paid to suppliers	(160,222)	(318,249)	(478,471)	(466,997)
<b>Cash flows from operating activities</b>	<u>43,247</u>	<u>67,974</u>	<u>111,221</u>	<u>108,510</u>
<b>Cash flows from capital and related financing activities</b>				
Acquisition of capital assets	(5,861)	(11,378)	(17,239)	(49,442)
Contributed capital	5,861	11,378	17,239	28,935
Principal paid on capital lease	(2,151)	(4,792)	(6,943)	(6,411)
Principal paid on long-term debt	(3,639)	(6,759)	(10,398)	(9,027)
Interest paid	(3,007)	(5,589)	(8,596)	(10,522)
<b>Cash flows from capital and related financing activities</b>	<u>(8,797)</u>	<u>(17,140)</u>	<u>(25,937)</u>	<u>(46,467)</u>
<b>Cash flows from investing activities</b>				
Interest on investments	<u>1,412</u>	<u>3,692</u>	<u>5,104</u>	<u>3,100</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>35,862</u>	<u>54,526</u>	<u>90,388</u>	<u>65,143</u>
<b>Balances - Beginning of the year</b>	<u>88,777</u>	<u>120,127</u>	<u>208,904</u>	<u>143,761</u>
<b>Balances - End of the year</b>	<u>\$ 124,639</u>	<u>\$ 174,653</u>	<u>\$ 299,292</u>	<u>\$ 208,904</u>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>				
Net operating income	\$ 22,966	\$ 15,061	\$ 38,027	\$ 34,460
Adjustments to reconcile net operating income to net cash provided by operating activities:				
Depreciation/amortization	14,925	51,233	66,158	65,441
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	10,312	14,972	25,284	(15,013)
Increase/(Decrease) in accounts payable	(5,496)	(13,397)	(18,893)	23,622
Increase/(Decrease) in customer deposits	540	105	645	-
<b>Cash flows from operating activities</b>	<u>\$ 43,247</u>	<u>\$ 67,974</u>	<u>\$ 111,221</u>	<u>\$ 108,510</u>
<b>Schedule of non-cash transactions:</b>				
Disposal of fixed assets	\$ -	\$ -	\$ -	\$ (2,106)

The accompanying notes are an integral part of the financial statements.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies**

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**General**

The Twin City Water Joint Management, Operations and Maintenance Agreement or the Water Departments of Hildale/Colorado City (the Water Departments) was formed on February 22, 1997, by the Town of Colorado City, Arizona and Hildale City, Utah (the Cities). The Town of Colorado City, Arizona, pursuant to the provisions of Title 11, Chapter 7, Article 3, Arizona Revised Statutes, as amended (the "Arizona Joint Exercise of Powers Act") and the City of Hildale, Utah, pursuant to the provisions of Title 11, Chapter 13, Utah Code Annotated 1953, as amended (the "Utah Interlocal Co-operation Act") entered into the "Inter-Governmental Agreement."

Each City has acquired its own water system which is independently owned and financed and reflected in the funds of the Water Departments. Each City's ownership percentage in The Water Departments was calculated based upon their population, footage of pipe, number of service connections, and value of distribution system within each City's boundary. Common operating expenditures are allocated based on actual revenues billed to each City's customers.

The Board of Trustees consists of seven trustees, three appointed by the Mayor and Council of Hildale City, three appointed by the Mayor and Council of Colorado City, and one appointed by a joint designation of both cities. Each trustee is entitled to one vote.

**Reporting Entity**

In evaluating how to define the Water Departments, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Water Departments are able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

The accompanying financial statements include all activities of the Water Departments.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Basis of Presentation and Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Department's only fund is an enterprise fund.

Fund financial statements report detailed information about the Hildale City and Colorado City Water Departments. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only funds of the Departments are enterprise funds. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The Departments' apply all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Departments have elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for water services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Budgets and Budgetary Accounting**

Annual budgets are prepared and adopted by each of the City Councils on or before June 22 for the fiscal year commencing the following July 1, in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State law, at the department level. Budget amendments are required to increase expenditure budgets. The Water Departments' Board of Trustees adopts or ratifies by resolution, the budgets passed by each City Council.

Budgets for the proprietary fund types are prepared using the accrual basis of accounting.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Water Departments.

**Accounts Receivable**

Accounts receivable consists solely of amounts due for water services provided. Management does not consider an allowance for uncollectible accounts receivable necessary or material and; therefore, no allowance has been recorded

**Inventories**

Inventories and supplies are considered immaterial and are not recorded.

**Wages and Salaries**

All employees are employed by Colorado City. The Water Departments reimburse Colorado City for wages, payroll taxes and benefits.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 1.      Summary of Significant Accounting Policies, Continued**

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**Net Assets**

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the Departments' legislation or external restrictions by other governments, creditors or grantors.

**Depreciable Fixed Assets**

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Distribution System	25 years
Office Furniture & Equipment	5-7 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in change in net assets for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

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**NOTE 2.      Deposits and Investments**

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The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Water Departments' follow the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of The Water Departments' funds in qualified depositories. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 2.      Deposits and Investments, Continued**

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The Water Departments participate in Hildale City's Central Treasury. The City's Central Treasury consists of the following at fiscal year end:

Far West Bank	\$ 182,387
State Treasurer's Investment Pool	697,941
U.S. Bank	1,088,288
Wells Fargo Bank	927,308
Zions First National Bank	213,221
Less amounts transferred to Hildale and Colorado City Joint Utilities	<u>(2,809,853)</u>
	<u>299,292</u>

	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Equity in Central Treasury	\$ 124,639	\$ 174,653	\$ 299,292

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. Hildale City does not have a formal policy for custodial credit risk. As of June 30, 2005, \$2,197,056 of the Hildale City's central treasury's bank balance of \$2,597,057 was exposed to custodial credit risk because it was uninsured and collateralized.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 2.      Deposits and Investments, Continued**

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**Investments**

The Money Management Act defines the types of securities authorized as an appropriate investment for the The Water Departments' and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the The Water Departments' to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 2. Deposits and Investments, Continued**

As of June 30, 2005 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 697,941	\$ 697,941	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 697,941</u>	<u>\$ 697,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Water Departments' policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Water Departments' policy for reducing exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2005 Hildale City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 697,941	\$ -	\$ -	\$ -	\$ 697,941
Total Fair Value	<u>\$ 697,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697,941</u>



**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 3. Capital Assets**

The following table summarizes the changes to capital assets during the year ended June 30, 2005:

	<u>Balance</u> <u>6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2005</u>
<b>Hildale City:</b>				
Capital assets not being depreciated:				
Land and land easements	\$ -	\$ -	\$ -	\$ -
Total capital assets, not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets being depreciated				
Office equipment	1,144	-	-	1,144
Automobiles and trucks	12,897	-	-	12,897
Water distribution system	178,367	5,861	-	184,228
System equipment	37,985	-	-	37,985
Total capital assets, being depreciated	<u>230,393</u>	<u>5,861</u>	<u>-</u>	<u>236,254</u>
Less accumulated depreciation for:				
Office equipment	(677)	(160)	-	(837)
Automobiles and trucks	(9,787)	(2,281)	-	(12,068)
Water distribution system	(39,190)	(7,252)	-	(46,442)
System equipment	(29,106)	(5,232)	-	(34,338)
Total accumulated depreciation	<u>(78,760)</u>	<u>(14,925)</u>	<u>-</u>	<u>(93,685)</u>
Total capital assets, being depreciated, net	<u>151,633</u>	<u>(9,064)</u>	<u>-</u>	<u>142,569</u>
Hildale City activities capital assets, net	<u>\$ 151,633</u>	<u>\$ (9,064)</u>	<u>\$ -</u>	<u>\$ 142,569</u>

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 3. Capital Assets, Continued**

The following table summarizes the changes to capital assets during the year ended June 30, 2005:

	<b>Balance 6/30/2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2005</b>
<b>Colorado City:</b>				
Capital assets not being depreciated:				
Land and land easements	\$ -	\$ -	\$ -	\$ -
Total capital assets, not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets being depreciated				
Office equipment	2,634	-	-	2,634
Automobiles and trucks	26,184	-	-	26,184
Water distribution system	887,764	11,378	-	899,142
System Equipment	75,277	-	-	75,277
Total capital assets, being depreciated	<u>991,859</u>	<u>11,378</u>	<u>-</u>	<u>1,003,237</u>
Less accumulated depreciation for:				
Office equipment	(1,257)	(455)	-	(1,712)
Automobiles and trucks	(19,871)	(4,634)	-	(24,505)
Water distribution system	(204,436)	(35,738)	-	(240,174)
System equipment	(58,371)	(10,406)	-	(68,777)
Total accumulated depreciation	<u>(283,935)</u>	<u>(51,233)</u>	<u>-</u>	<u>(335,168)</u>
Total capital assets, being depreciated, net	<u>707,924</u>	<u>(39,855)</u>	<u>-</u>	<u>668,069</u>
Colorado City activities capital assets, net	<u>\$ 707,924</u>	<u>\$ (39,855)</u>	<u>\$ -</u>	<u>\$ 668,069</u>

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE 4. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

	Balance 6/30/2004	Additions	Retirements	Balance 6/30/2005	Current Portion
Notes payable	\$181,203	\$ -	\$ 10,398	\$170,805	\$ 10,178
Capital leases	6,943	-	6,943	-	-
Total Long-term debt	<u>\$188,146</u>	<u>\$ -</u>	<u>\$ 17,341</u>	<u>\$170,805</u>	<u>\$ 10,178</u>

Long term debt consists of the following at June 30, 2005:

<u>Notes Payable</u>	<u>Hildale City</u>	<u>Colorado City</u>	<u>Total</u>
Note Payable to Twin City Water Authority bearing interest at 5.00 percent, due in monthly principal and interest installments of \$1,583 maturing June 26, 2018.	\$ 59,782	\$ 111,023	\$ 170,805
Total Long Term Debt	59,782	111,023	170,805
Less Current Portion:	(3,562)	(6,616)	(10,178)
Net Long Term Debt	<u>\$ 56,220</u>	<u>\$ 104,407</u>	<u>\$ 160,627</u>

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 4. Long-Term Debt, Continued**

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Maturities of Notes Payable are as follows:

Year Ended June 30,	Hildale City		Colorado City		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 3,562	\$ 3,086	\$ 6,616	\$ 5,732	\$ 10,178	\$ 8,818
2007	3,745	2,904	6,954	5,393	10,699	8,297
2008	3,936	2,712	7,310	5,037	11,246	7,749
2009	4,138	2,511	7,684	4,663	11,822	7,174
2010	4,349	2,299	8,077	4,270	12,426	6,569
2011-2015	25,320	7,923	47,023	14,714	72,343	22,637
2016-2018	14,732	4,991	27,359	9,269	42,091	14,260
Total	<u>\$ 59,782</u>	<u>\$ 26,426</u>	<u>\$ 111,023</u>	<u>\$ 49,078</u>	<u>\$ 170,805</u>	<u>\$ 75,504</u>

**WATER DEPARTMENTS**  
**Notes to the Financial Statements**  
**June 30, 2005**

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**NOTE 5.      Commitments**

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The Water Departments have entered into an agreement with Twin City Water Works for the maintenance of the water distribution system. Twin City Water Works provides for all of the repairs and routine maintenance of the system and bills the Water Departments monthly based on hourly rates for labor and equipment use as provided in the agreement. The agreement is for a term of two years beginning April 1, 1996, with an automatic one year extension unless canceled in writing by either party.

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**NOTE 6.      Board of Trustees, Mayors and Councils**

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The Board of Trustees consists of seven trustees, three appointed by the Mayor and Council of Hildale City, three appointed by the Mayor and Council of Colorado City, and one appointed by a joint designation of both cities. Each trustee is entitled to one vote.

The Hildale City council consists of a mayor and five council members. The Colorado City council consists of a mayor and six council members.

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**NOTE 7.      Risk Management**

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**Risk Management**

The Departments are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Departments maintain insurance for the water distribution systems through Hildale City and Colorado City's insurance policies which are held through the Utah Local Government Trust and Arizona Municipal Risk Retention Pools. All employees are employed by Colorado City and covered by Colorado City's insurance policy.

**FEDERAL AND STATE REPORTS**



**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.L.C.

**CPA'S & ADVISORS**

**Independent Auditors' Report on Compliance with  
Laws and Regulations and on  
Internal Control Over Financial Reporting  
Based on an Audit of Basic  
Financial Statements Performed in Accordance  
with Government Auditing Standards**

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

Executive Director and  
Members of the Board of Trustees of  
Water Departments of Hildale/Colorado City

We have audited the basic financial statements of the Water Departments of Hildale/Colorado City (the Water Departments) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Water Departments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the Water Departments in a separate letter dated September 15, 2005.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Water Departments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Water Departments in a separate letter dated September 15, 2005.

This report is intended solely for the information and use of the mayors, councils, power board, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
August 31, 2005





**KEMP BURDICK**

KEMP BURDICK HINTON & HALL, L.C.

**CPA'S & ADVISORS**

### Findings and Recommendations

Executive Director and  
Members of the Board of Trustees of  
Water Departments of Hildale/Colorado City

During our audit of the funds of the Water Departments of Hildale/Colorado City (the Water Departments) for fiscal year ended June 30, 2005, we noted that management has made improvements to the accounting and budgeting system and we wish to commend management and the board on their achievements. However, we noted a few areas that need corrective action in order to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen the Water Departments' accounting system and control over its assets.

Since the Water Departments' accounting system is fully integrated with Hildale City's accounting system, we have included all of our findings and recommendations in the Hildale City management letter which will be made available to each participating board.

It has been a pleasure to be of service to the Water Departments this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.  
September 15, 2005

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
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